

Brezhnev Will Resign By the End of the Year, Reports in Moscow Say

MOSCOW — Unofficial reports are circulating in Moscow that President Leonid I. Brezhnev, 75 and chronically ill, will retire by the end of the year.

Government sources who previously have refused to discuss Mr. Brezhnev's tenure in office or health said he probably would quit in late December at about the time of the nation's 60th anniversary celebration. But they said the announcement could come as early as next month.

Whether the reports are true or are trial balloons floated by interested parties is impossible to say. What makes them unusual is that government officials who would ordinarily deny knowledge of the issue are spreading the word among Western reporters.

Possible Successors
The sources said Mr. Brezhnev would leave office with extraordinary Soviet honors, a certified hero who had brought the Soviet Union to military parity with the United States during his 18-year tenure.

His predecessors have either died in office or been removed, and Western experts cautioned that reports of Mr. Brezhnev's impending resignation could be part of an orchestrated campaign by other Politburo members, possibly including Yuri V. Andropov, the former chief of the security police, to push Mr. Brezhnev out of office.

Mr. Andropov, who serves with Mr. Brezhnev on the 13-member ruling body and who is regarded as his most likely successor, was suspected of having started rumors last spring that Mr. Brezhnev had been hospitalized after a stroke.

Mr. Andropov, 68, was thought then to have been trying to unseat the succession chances of Konstantin U. Chernenko, 70, a longtime Brezhnev aide and protégé.

"All the indications point toward retirement, but I wouldn't bet on the timing," a Western diplomat speculated. "He must feel incredible pressure to quit for the chance for enormous glory." However, he cautioned: "You must remember that it's never happened before."

Other Politburo members reportedly have become increasingly irritated with Mr. Brezhnev's inability to do a full day's work in recent years. The sources said

there was resentment that Mr. Brezhnev's aides were performing many of his major duties.

Some in the Politburo were also said to be concerned that Mr. Brezhnev was not well enough to leave the country to meet other foreign leaders, primarily President Ronald Reagan. He has not met with a U.S. president since June 1979, when he met in Vienna with Jimmy Carter to sign a strategic arms limitation treaty.

Mr. Brezhnev disappeared for four weeks in March and April. The Foreign Ministry said he was on a "regular winter vacation," and there was no confirmation that he was ill.

He looked relatively fit Aug. 31 in a televised report on his return from a two-month Crimean holiday, but his health is said to fluctuate dramatically.

During his recent holiday at his dacha on the Black Sea, Mr. Brezhnev met with only three leaders from Warsaw Pact countries. He normally sees all six.

Andropov Moves Up
All signs point to an assumption of power by Mr. Andropov if Mr. Brezhnev resigns.

In May, a month after Mr. Brezhnev resurfaced, Mr. Andropov was named to the Communist Party Central Committee Secretariat, and two days later he left his position in the KGB. The move was seen as an attempt to distance himself from the police network and establish himself as a more credible successor to Mr. Brezhnev.

Mr. Andropov reportedly has assumed most, if not all, of the powerful roles once held by Mikhail Suslov, the Stalinist professor who sponsored Mr. Brezhnev's rise to absolute power. He has taken over Mr. Suslov's role as top party ideologist, which puts him in control of Communist doctrine, Soviet culture and news organizations.

There have been other signs that the leadership is tightening its grip on the country, possibly in preparation for the transition. Since Mr. Andropov left the KGB and Vitaly Fedorchuk took control, dozens of religious faithful have been arrested. On Friday, Boris Pankin of the Soviet Copyright Agency, which holds major power in deciding which foreign books and films enter the country, was reassigned as ambassador to Sweden.

3 British Unions Back Call for Illegal Strike

LONDON — Three major British trade unions announced support on Sunday for an illegal strike against Prime Minister Margaret Thatcher's Conservative government, which crushed several strikes by individual unions this summer.

Joining the call for a one-day strike on Sept. 22 are the 350,000-member National Union of Mineworkers, the 900,000-member General and Municipal Workers Union and the 240,000-member Society of Graphical and Allied Trades. Other unions are expected to follow suit.

Arthur Scargill, the mineworkers' president, said, "I hope every worker in Britain stops work."

He said it was the first time the powerful Trades Union Congress General Council had called for widespread industrial action since the general strike of 1926.

Norman Tebbit, Mrs. Thatcher's employment secretary, attacked the TUC, Britain's version of the AFL-CIO in the United States.

He asked, "What will these strikes do to help unemployment?"

The strike will be in support of the 1.2 million-member National Health Service employees union, which has staged periodic strikes throughout the year rejecting Mrs. Thatcher's maximum 7½ percent wage offer and demanding a 12-percent pay increase.

The 1980 Employment Act, passed under the Thatcher government, forbids most such sympathy strikes.

Mr. Scargill acknowledged that sympathy strikes are illegal under present law.

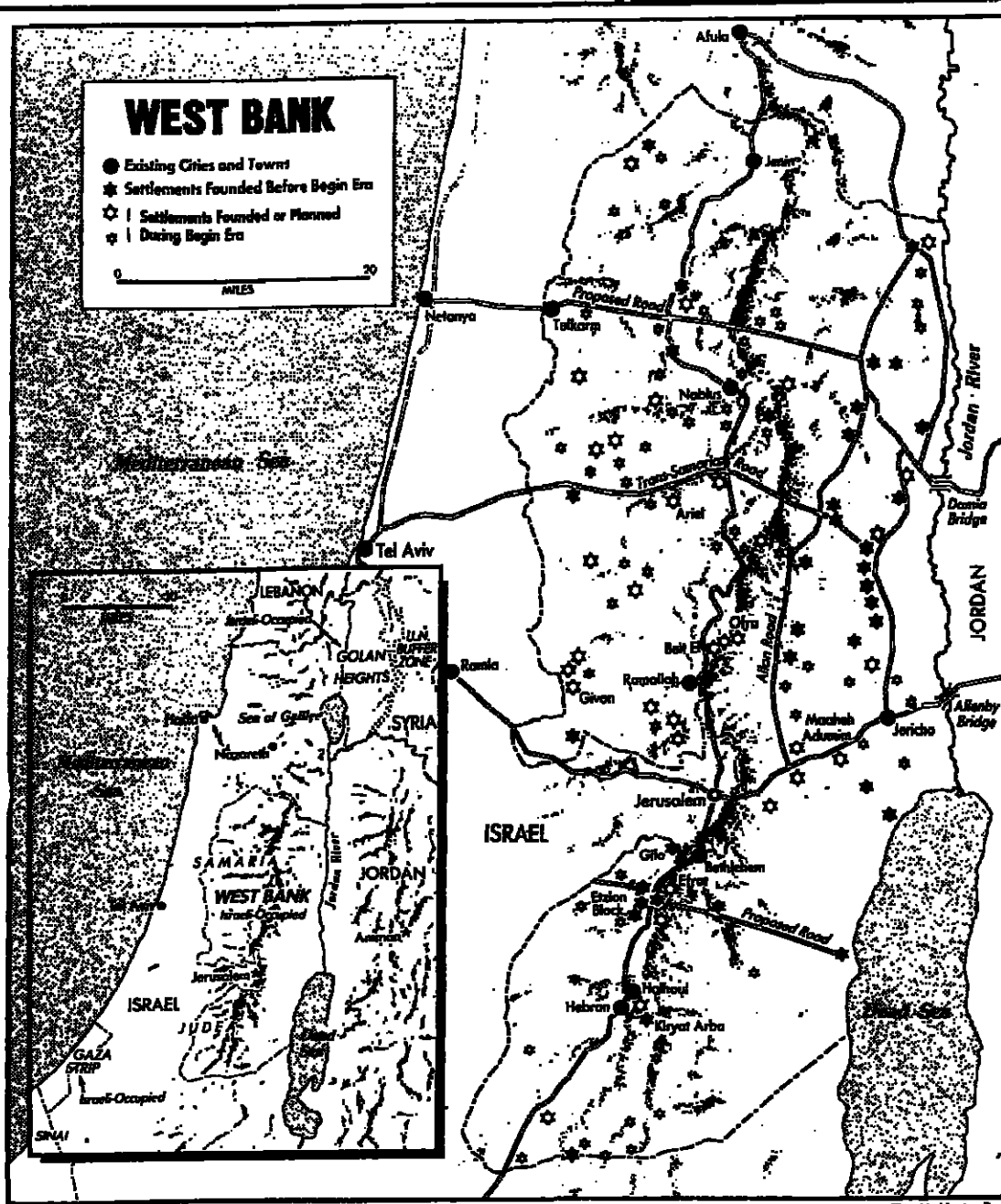
Bill Keir, general secretary of the print union, indicated that his Fleet Street workers would support the strike and said he would shut down the newspaper industry if any striking union member were put in jail.

The militancy comes at the close of a summer of numerous strikes in Britain, some of which were effectively broken by the Thatcher government.

The most dramatic was a two-week strike against the national railway, British Rail, that collapsed in July after the engineers could not muster support from other rail unions.

The Sunday Observer said one in four British workers has been unemployed for a period during 1982, a year in which the jobless figures reached a postwar peak of more than 3 million.

Thirty-one percent of the workers interviewed in a poll for the Observer blamed the government for unemployment, while the rest cited world recession, high wage demands, laziness and union leadership.



Israel Presses Plan for New Settlements

(Continued from Page 1)

war. He said 340 Israeli soldiers were killed and 2,200 wounded, 100 seriously.

Agriculture Minister Simcha Ehrlich, who chairs the cabinet-level settlements committee, said that the decision to approve the new settlements was not connected to the Israeli rejection of Mr. Reagan's new proposals, Israeli Army radio said.

The Israeli cabinet rejected the Reagan proposals within 24 hours, saying they were in conflict with the Camp David agreements.

Mr. Ehrlich said that one plan for settlement in the area south of Hebron approved on Sunday was months old. He said that the government would develop its settlements according to its long-standing plans, the radio said.

An official of the Jewish Agency, which is responsible for settlements, said that the communities were part of a government plan to house 100,000 Jews in the territories captured by Israel in the 1967 Middle East war.

The government has scheduled for Wednesday twin parliamentary debates on the Reagan proposals and the invasion of Lebanon. Cabinet Secretary Dan Meridor said that with the PLO out of Beirut, the government believed the active phase of the war was over.

The question of getting about 30,000 Syrian troops and remaining Israeli forces out of Lebanon "is a different story," which Israel believes can be achieved through negotiations, Mr. Meridor said.

The opposition Labor Party on Sunday reaffirmed its support for some of the Reagan proposals and called the government's rejection hasty.

Beverage Kills 47 in India

NEW DELHI — Forty-seven persons died and more than 600 were hospitalized in the southern state of Kerala after drinking a homemade alcoholic drink during a harvest festival, the Press Trust of India reported Saturday.

The deaths occurred after a festival in which people drank a drink made from a mixture of rice and other ingredients, which had been stored for a long time and had become poisonous.

Relations between Syria and Jordan have been extremely tense for years. Syria accuses Jordan of giving aid to the subversive Muslim Brotherhood in Syria, and the Jordanians have accused Syria of conducting subversive operations here.

"We had to assume that Sharon would be fully capable of using military force or political infiltration against us to bring down the regime and pave the way for what he could then call a Palestinian state," another official said. He added that throughout the long siege of Beirut it had looked as if there was no limit to what the United States would permit the Israelis to do to their neighbors.

This feeling has changed, according to Jordanian and Western sources.

Commitment Cited
Mr. Reagan included in his declaration an "irreversible commitment to the survival and territorial integrity of friendly nations," which Jordanian officials pointed out included Jordan as well as Israel.

More generally, the U.S. decision to play a forceful role in the region is likely to have a moderating influence on Israel and other powers in the region, including Syria, it is said here.

The Jordanians also feared that the Palestinians would regroup in Syria, where they could be used for operations inside Jordan. This danger has receded with the obvious coolness between the Palestinian leadership and Syria, it is believed here.

On the danger of internal destabilization, Jordanian officials said that Amman had seen a threat in the repeated statements by Ariel Sharon, the Israeli defense minister, that there was no point in looking for a new Palestinian homeland because the Palestinians already had a state — Jordan.

"We watched Lebanon and frankly we thought we were next," an official said. He added that the Israelis had made it clear in Beirut that they were willing to use military force even at the price of suffering and harm to their international standing.

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U.S. Aides Say Israel Withholds War Data

By Leslie H. Gelb
New York Times Service

WASHINGTON — Israel will not share military intelligence from the war in Lebanon with the United States until the Reagan administration removes a variety of sanctions against Israel, according to administration officials.

The officials said the Israeli defense minister, Ariel Sharon, made that position known in a conversation with Defense Secretary Caspar W. Weinberger in Washington two weeks ago.

One of the sanctions cited by Mr. Sharon was President Ronald Reagan's decision to hold up congressional action on the sale of 75 F-16 jet fighter-bombers long promised to Israel. The delay was in response to Israel's attack on Palestinian forces in Lebanon in June.

U.S. military officers and Central Intelligence Agency officials attach great importance to Israel's sharing of military intelligence. They have made it clear to Pentagon officials that they want to see what Israel learned from combat with Syrian forces that were using Soviet weapons systems.

At the same time, the Israelis place considerable importance on sticking to the delivery schedule of the F-16s in order to maintain air superiority over Arab air forces.

The bargaining over intelligence sharing and F-16 deliveries is a backdrop to the larger dispute that Israeli and U.S. officials say they expect over the plan Mr. Reagan proposed Wednesday toward resolving the questions of a Palestinian homeland and Israeli security. The Israeli government's first reaction to the plan was anger and complete rejection.

Administration officials insisted that there was no connection between the continued delay in F-16 shipments and efforts to gain Israeli cooperation with the president's negotiating plan. They said no one in the administration questioned the commitment to provide the aircraft and approval was "only a matter of timing."

They did not deny, however, that the F-16s could become part

of the bargaining over sharing intelligence information.

During a visit to the Pentagon on Aug. 27, Mr. Sharon mentioned to Mr. Weinberger that Israel had learned many military lessons from the war in Lebanon. But he added, according to sources, that it would not be logical for Israel to pass along information while the United States maintained sanctions against the Israelis.

Mr. Sharon was said to have urged that the two sides wait until their relations returned to normal before negotiating an agreement for sharing the information. It is normal practice for Israel and the United States to negotiate such specific arrangements; they did so after the 1967 and 1973 Middle East wars.

Mr. Weinberger was said to have responded that he did not know what sanctions were being referred to by Mr. Sharon. He reportedly gave Mr. Sharon a list of weapons that the United States continued to provide Israel.

Mr. Sharon reportedly responded with a list of U.S. sanctions, including the F-16 delay, the suspension of the 1981 memorandum of understanding on military cooperation after Israel annexed the Golan Heights in December, and the suspension of deliveries of cluster bombs because of Israel's use of the weapon in Lebanon. Mr. Weinberger's response could not be learned.

U.S. military officers are particularly interested in learning about what Israel experienced in attacking Syrian missile batteries. The batteries — made up of a variety of Soviet-made surface-to-air missiles such as SAM-2s, SAM-3s and SAM-6s, as well as anti-aircraft guns and radar — are virtually identical to Soviet systems in Europe. The Israelis destroyed the batteries without losing an aircraft.

There is also considerable interest in Israel's experience against Soviet-made MIG-21s and MIG-23s and the T-72 tank, of which Israel destroyed several. The Israelis shot down 80 MIG-21s and MIG-23s without a loss.

After the 1967 war, Israel provided information about the high-altitude SAM-2s that proved valuable for U.S. pilots flying against the missiles in North Vietnam. After the 1973 war, the Israelis passed along information on the low-altitude SAM-6s.

Former Nixon administration officials said that Israeli military intelligence provided after the 1973 war was dwarfed by data provided by President Anwar Sadat of Egypt as relations between Egypt and the United States warmed.

U.S. Nuclear Plant Officials Examine Pipe-Welding X-Rays for Alterations

NEW YORK — Officials at nuclear plants throughout the United States are examining X-rays of piping welds after learning that the films had been altered to make them seem to conform more closely to safety standards.

The records were doctored by three technicians employed at two unrelated pipe supply companies. In one of the cases, the X-rays had been altered during a six-year period.

**20 Injured in Protests
At Frankfurt's Airport**
The Associated Press

FRANKFURT — Twenty persons were injured Sunday in demonstrations protesting construction of a new runway at Frankfurt's Rhein Main International Airport.

Police said about 100 persons broke away from about 500 demonstrators and bombarded police with stones, bottles and paint balls. Police detained 11 persons. Security officials found a land mine near the construction site, but it was determined they had altered radio-

od. Nuclear Regulatory Commission records show the companies have supplied pipe for about three dozen nuclear units, five of which are already operating.

John Kopec, a spokesman for the regulatory commission, said no defects had been found in any of the welds. Breaks in water pipes would threaten the cooling systems that are crucial to the operation and safety of nuclear power plants.

The regulatory commission informed utilities last month that films of cooling pipe welds at a plant being built in Satsop, Washington, had been "enhanced" with a pencil. The doctored films were uncovered during a routine audit of work performed by Associated Piping & Engineering Corp. of Compton, California.

The regulatory commission had previously been informed of similar X-ray doctored on work performed by ITT Grinnell Industrial Piping Inc. at two nuclear units being built in Midland, Michigan. An ITT spokesman said two technicians were dismissed after it was determined they had altered radio-

Leftist Militia Relinquishes 2 Beirut Sites Syria Reports Clash, Deaths of 3 Israelis

Compiled by Our Staff From Dispatches

BEIRUT — Leftist Lebanese militiamen Sunday moved out of two large buildings they had occupied in the 1975-76 civil war, turning over the West Beirut structures to the Lebanese Army and police.

The Murabitoun, the largest leftist militia still in Beirut, handed over the Murr Tower, a 30-story, never-completed block, and the Holiday Inn, which were taken from rightist Phalangist forces during the civil war.

After the war, the leftists transferred the buildings to the Syrian-backed Palestine Liberation Army. They reclaimed the sites only recently, after the Palestinian group left Beirut during the evacuation of Syrian and Palestinian fighters that was completed last week.

Ibrahim Kholifat, leader of the Murabitoun, said Sunday his forces refused to move from other positions in the city's port area, fearing that U.S. Marines who now control the port as part of a multinational supervisory force would let Israeli troops slip through their lines and attack. He said these positions would be handed over when U.S. troops leave the port.

Beirut's southern suburbs, where leftists and Israeli troops had exchanged sniper fire for the past two days, were quiet Sunday.

But the Israeli military command said Sunday in Tel Aviv that eight Israeli soldiers had disappeared Saturday from an observation post north of Bhamdoun in central Lebanon and apparently were abducted and taken to a Syrian-held area. It said the International Red Cross had been asked to investigate.

In Damascus, a Syrian military command spokesman said three Israeli soldiers were killed and three wounded during a skirmish between Israeli and Syrian troops. The spokesman said a Syrian soldier was killed and three wounded before the "enemy patrol withdrew."

Israeli Sniping
Earlier, the Washington Post filed the following account from Beirut:

Israeli soldiers occupying new forward positions in a southern suburb of West Beirut harassed Lebanese Muslim militiamen with sniper fire Saturday despite assurances given to the Lebanese government that they were withdrawing.

The Israeli troops, estimated to number between 40 and 50, occupied the Bir Hassan neighborhood Friday in an apparent breach of the Aug. 12 "cease-fire in place" that was one of the cornerstones of the U.S.-mediated evacuation accord.

After Lebanese complaints about the advance, Israeli officials passed word to Ambassador Robert Dillon of the United States that they would withdraw. The Israelis, however, did not pull back Saturday despite government radio reports that they had done so. On Saturday afternoon, the Israelis opened fire on a leftist militia roadblock without causing injuries.

Also Saturday, the Palestine Liberation Organization's remaining diplomatic representative in Beirut, Shafiq Hout, presided over the handover to the army of PLO ammunition stores and heavy weapons to the militia groups that had fought at their side.

Computer Buffs, Rock Fans Team Up at U.S. Festival

United Press International

SAN BERNARDINO, California — More than 200,000 "surprisingly well behaved" music fans and computer buffs, undaunted by high temperatures, celebrated high technology and hard rock at the US Festival over the weekend.

The three-day festival — the largest outdoor concert since 1969 — resembled a Boy Scout jamboree with the mostly young crowd pitching tents in campgrounds and hanging U.S. flags from recreational vehicles. Marijuana smoking and other drug use were rampant, but law officers were noticeably lenient.

Sheriff's deputies reported one violent crime — a rape — on Friday, the opening day of the festival. "I'm really shocked that these kids are so well behaved," county police Captain Joe Karr said.

Fans listened to performances beamed by satellite to the Soviet Union, as well as groups including Santana.

Iraq Says It Sank 4 Ships in Gulf

BEIRUT — Iraq has said that its navy and air force, under orders to blockade the Iranian coast, has destroyed four ships in the Gulf, including two tankers sailing toward Iran's main oil terminal on Kharg Island.

The announcement Saturday gave no details of the nationality of the ships allegedly destroyed. But a senior Iranian oil ministry official contacted from Bahrain denied that any vessels had been sunk near Kharg Island. He also said he understood that no ships had been damaged at the Iranian port of Bandar Khomeini, where Iraq said the other two vessels had been destroyed.

Iraq and Iran have been at war

WORLD BRIEFS

3 Said to Plan 20 U.K. Assassinations

LONDON — Police officers who arrested three Irish National Liberation Army members in Paris last weekend found a handwritten list outlining a plot to assassinate 20 prominent Britons, The Sunday Times reported.

The guerrilla organization, an extreme left splinter group of the Irish Republican Army, planned to kill an important British politician and 19 other prominent Britons as part of a terror campaign to overshadow the Oct. 20 elections for a provincial parliament in Northern Ireland, the newspaper said.

The names were not revealed, but the report said a senior officer of the British Army of the Rhine and the British military attaché in The Hague were among the targets. The list of victims, three guns, two detonators and 500 grams of explosive were seized during the raid in which Michael Plunkett, Mary Reid and Stephen King were arrested. The Sunday Times said.

Turks Impose Curfew, Take Census

ANKARA — The military government pressed its support for a proposed constitution by imposing a curfew Sunday to conduct a census of those who are expected to vote in a referendum in November.

The 14-hour curfew was imposed Sunday so government workers could conduct a census of 21 million voters. Those who declined to be registered in the census were subject to five-year prison sentences. Violators of the curfew were subject to six-month jail terms.

The new constitution would limit freedom for the sake of political stability, according to the head of state, General Kenan Evren. Critics have said the draft centralizes power in the presidency, which would have the power to dissolve parliament and decree a state of emergency.

Mass Honors 2 Poles Killed by Police

LUBIN, Poland — Nearly 4,000 people jammed a church Sunday for an emotional funeral Mass in memory of two workers shot and killed by the police during Solidarity protests Tuesday.

After the Mass, which ended without incident, about 300 people gathered at the area in the center of town where Andrzej Tytkowski, 32, and Mieczyslaw Pozniak, 25, were killed. They placed flowers and candles without being disturbed by the police.

The crowd sang the national anthem and flashed V signs. The police stayed out of sight. The police and army troops continued to march roadblocks outside the city, and private cars were banned in the city center.

Manila Charges 68 With Conspiracy

MANILA — The army has formally charged 68 people with conspiracy to commit rebellion, according to the official Philippine press agency.

Of those charged, the army has acknowledged arresting and detaining only 32 people, mostly trade unionists led by Felixberto Olalia, 79, chairman of the May 1 Movement labor organization, which claims a following of 500,000.

They were arrested after Mr. Marcos said last month that some unions were conspiring with subversives to carry out bombings and assassinations before or during Mr. Marcos's mid-September visit to the United States. Mr. Marcos said later that the alleged plot had been broken up but the army has continued making arrests, saying the terrorism was part of a larger plot by the Communist Party to depose Mr. Marcos.

Toll in Indian Flooding Passes 500

NEW DELHI — Continued flooding of the Ganges River and its tributaries inundated 1,600 more villages in Uttar Pradesh, India's largest state, and the nationwide monsoon toll passed 500 Sunday, the authorities said.

In neighboring Bihar state, the Ganges swamped large tracts of farmland and scores of villages, officials said. Low-lying areas of Patna, the capital of Bihar, were reportedly flooded. In Orissa state in the southeast, about six million people were displaced by flooding, the local authorities said.

Uttar Pradesh officials said about eight million residents of 12,500 hamlets, mostly in the east, were displaced by floods. At least 41 monsoon-related deaths were reported Sunday in Uttar Pradesh. Air force helicopters and transport planes dropped food packets to thousands of marooned villagers.

Burma May Back Cambodia Rebels

RANGOON, Burma — The Burmese government is expected to support a new coalition of Cambodian guerrilla groups opposing the Vietnamese-backed government in Phnom Penh at the United Nations this month, sources say.

Vietnam and the Association of Southeast Asian Nations, which favors the guerrilla coalition created in June, have been courting Burma for support on the Cambodian issue.

Burma, which is nonaligned, maintains friendly relations with Hanoi. But it opposed Vietnam's invasion of Cambodia in December 1978 and has continued to recognize the Khmer Rouge government. Burma voted to seat the Khmer Rouge at the 1981 UN session, and was likely to support the new coalition led by Prince Norodom Sihanouk.

Compiled from Agency Dispatches

Under Pressure, Reagan Puts His Stamp on Foreign Policy

(Continued from Page 1)

faceted down the nuclear freeze movement and liberals favoring arms control with his commitment to a rapid U.S. military buildup and a tough negotiating stance on strategic arms reductions.

Less expected, he was willing to offend ardent rightist Republicans by promising China that the United States would gradually reduce arms sales to Taiwan.

This summer, he has dared to fuel tensions in the NATO alliance by tentatively insisting on trade sanctions against the Soviet pipeline. And now, with an important congressional election only two months off, he has risked a confrontation with Israel and U.S. Jews by proposing "full autonomy" for Palestinians, somewhat linked to Jordan, and by opposing further Israeli settlements on the West Bank.

Mr. Reagan's attitudes toward the world have their roots in the America-first, isolationist instincts of the Middle West where he was raised. His foreign policy has been slow to take shape not only because he assigned higher priority to the economy but, perhaps just as importantly, because both he and his advisers lacked experience and a concrete vision for dealing with foreign affairs.

Now their basic instincts are being reshaped by the complexities of a world that does not yield to a

simple ideology or to assertions of U.S. will.

Apparently, they are also being modified by Secretary of State George P. Shultz. Quietly, he has encouraged Mr. Reagan to soften the penalties imposed under his pipeline sanctions.

Once before, in 1970, the United States put forward a Middle East plan calling for Israeli withdrawal from occupied Arab lands roughly to the 1967 ceasefire lines. But confronted by an adamant Israeli President Richard M. Nixon, backed off and the initiative died.

This time, the Reagan administration laid considerable groundwork in advance, gaining qualified support from Jordan's King Hussein and private encouragement from the influential foreign affairs committees of Congress. The president's strategists believe bold action reinforces his image for forcefulness, but the swift Israeli rejection shows it is one thing to articulate foreign policy and another to implement it.

Air Toll for 1982 Is 538

BERN — Five hundred and thirty-eight people died in air crashes throughout the world in the first half of 1982, compared with 145 during the same period in 1981, according to a report made for Swiss insurance companies. The toll for all of 1981 was 650.

Since the early days of the war in September 1980, But it set out the exact location of the exclusion zone after it sank two ships, one Greek and one South Korean, near Bandar Khomeini.

Western industry sources estimated that last month's Iraqi warnings had succeeded in reducing Iranian oil exports. Also, freight and insurance rates rose sharply for tankers going to Kharg Island.

But two days ago Tehran Radio quoted the country's deputy oil minister, Abbas Homaidoust, as saying 14 tankers had loaded at Kharg Island in the past week. He also announced that Iran's national insurance company was ready to

Jordan Appears Heartened by Reagan Plan

By Henry Tanner
New York Times Service

AMMAN, Jordan — Jordanian officials say that one of the most immediate effects of President Ronald Reagan's proposal on the Middle East has been to ease Jordan's fear of internal destabilization by Israel or by Palestinian extremists backed by Syria.

At the same time, the Reagan program has caused new anxiety by "putting Jordan on the spot," according to an official.

"The president has put the Palestinian issue into a Jordanian context and given us a pivotal role," the official said. "We like that, but it causes problems."

Brain-Dead Woman Was 'Incubator' for Infant

Doctors Deliver Baby After a Week of Artificially Supporting Mother

By Christine Russell
Washington Post Service

WASHINGTON — The body of a brain-dead woman was used as an "incubator" to keep her unborn baby alive until it had a better chance of survival outside the womb, doctors in Buffalo, New York, have reported.

After more than a week of artificially supporting the mother's vital functions, the premature infant, a girl weighing about two pounds, was delivered by cesarean section.

A precarious period of intensive care followed, but the child was discharged from the hospital three months later and adopted. She appears to be meeting "normal milestones," according to Dr. William P. Dillon, an obstetrician who helped make the decisions in the case.

The case, thought to be the first of its kind, may cause debate over the medical, legal, ethical and even economic questions involved.

It is an example of how recent advances in medical technology

have created new problems. These problems arise because doctors have both the ability to keep heart and lungs working through artificial means when the brain is no longer functioning and the ability to save premature infants who once would have died.

The unusual medical circumstances of the pregnancy complicated the case. The 24-year-old woman was an epileptic who had been taking medication that greatly increased the risk of birth defects.

Doctors did not know if the baby was deprived of oxygen during a long seizure that brought her mother to the hospital, and no one knew why the woman's brain became so inflamed that it ceased functioning.

The woman was unmarried, and her elderly mother gave the doctors permission to make decisions. Because the state of New York had not adopted a statute defining brain death as death, there were potential legal problems.

"It was our decision, and in the final analysis we were plunged into



Dr. William P. Dillon

this condition is really dead," said Robert M. Veatch, of the Georgetown University Center for Bioethics.

"One question is whether you ought to use such extreme measures to save the fetus. That's not a scientific question, it's a question of ethics, religion and public policy."

9 Governors In West Assail U.S. Coal Plan

Letter to Watt Warns Of Loss of State Control

By Dale Russakoff
Washington Post Service

WASHINGTON — In a sharply worded letter to James G. Watt, the interior secretary, the governors of nine western states have called his department's new coal-leasing policies a move "to once again centralize on the Potomac critical decisions affecting western states."

The governors, seven Democrats and two Republicans, said the rules would reduce the influence of state officials and open the way for "excessive leasing of federal coal."

This could drive down the price the government receives for its resources and lead to "needless, delaying litigation," the letter said.

Interior Department officials declined to comment on the letter, saying Mr. Watt had not yet received it.

The main accusation in the letter was that the regulations "evade the most vital organ for state-federal cooperation, the regional coal teams."

The teams, composed of governors and Interior Department officials, were among the Carter administration's more popular initiatives among westerners.

Under the new regulations, the teams will forward several options, rather than one, to Mr. Watt. Aides to the governors said they feared the Interior Department would put more coal on the market than state officials wanted. They cited the department's recent proposal to lease between 800 million and 1.2 billion tons of coal along the Montana-North Dakota border after a regional coal team recommended leasing between 400 million and 800 million tons.

The letter criticizing the regulations was signed a week ago at a western governors' meeting in Idaho. The same nine officials also unanimously passed a resolution critical of a proposal by the Reagan administration to sell millions of acres of public lands to help reduce the national debt.

The resolution and the letter represent unusually sharp criticism by the governors, whom Mr. Watt has often cited as his strongest supporters and who have praised many of his pro-development policies.

Mr. Watt's policies directly affect the nine governors' states, where the Interior Department owns more than one-third of the land and much of the coal.

The governors who signed the letter and the resolution are: Ed Herschler of Wyoming; Richard D. Lamm of Colorado; Scott M. Matheson of Utah; Ted Schwin-den of Montana; Bruce King of New Mexico; Allen I. Olson of North Dakota; John V. Evans of Idaho; William J. Janklow of South Dakota and Bruce E. Babbitt of Arizona. Mr. Janklow and Mr. Olson are Republicans.

The coal regulations have been in effect for only five weeks and have not yet been used in a major sale of federal coal rights. The Interior Department revised the rules as part of the Reagan administration's effort to "eliminate burdensome and unnecessary rules."

Western governors proposed 175 changes when the Interior Department circulated a draft of the rules earlier in the year. The department rejected 159 of them, according to the governors' aides.

100 Papers on Optics Censored by Pentagon

By Philip M. Boffey
New York Times Service

WASHINGTON — The Defense Department blocked the presentation of about 100 technical papers just before they were to have been delivered at an international convention on optical engineering in San Diego late last month.

The last-minute security crackdown appears to have been the most sweeping effort yet by the Reagan administration to prevent the unauthorized disclosure of sensitive technical data that officials believe could be of military use to the Soviet Union or its allies.

The abrupt nature of the action disturbed some top scientists and even other government officials, with George A. Keyworth 2d, President Ronald Reagan's science adviser, calling the move "both unfortunate and ill-timed."

The action disrupted the 26th annual symposium of the Society of Photo-Optical Instrumentation Engineers by eliminating about one of every six papers scheduled to be presented.

The papers that were withdrawn covered such advancements in optical technology as small mirrors for laser communications between satellites and submerged submarines; infrared optics; and airborne reconnaissance sensors.

A Defense Department official who played a key role in blocking many of the papers said he had done so partly because they contained sensitive technological data and partly because of the presence of Soviet and other foreign scientists at the convention. He declined to be identified.

Mr. Keyworth acknowledged that "some reconsideration" was needed between the legitimate concern of the Defense Department on the transfer of sensitive technology and the desire of many scientists for "an unfettered pursuit of research" and freedom to speak at international conferences.

An account of the incident is contained in the current issue of Science News, a weekly magazine that had a reporter at the convention. The magazine said that the government's censorship actions "appear to be unprecedented in their timing, in the large number of papers removed and in the scope of the papers' content."

Richard Wollensak, a vice president of the Itek Corp., a major electronics company, who is president of the photo-optical society, said his major concern was that the Defense Department intervention came too late to allow an orderly clearance procedure.

Although the conference had been advertised for months, Pentagon officials raised serious objections only two or three weeks before the meeting. There are conflicting and unsubstantiated reports that some sensitive papers had already been cleared at lower levels by the armed services only to be censored later when higher officials became concerned about the presence of Soviet scientists.

According to one government official who attended the conference, the military authorities sent notices to the authors shortly before the conference advising them to obtain the appropriate clearances.

The warnings left many speakers confused about their rights to free speech and just how sensitive their presentations were considered by the government. "People didn't know what to do," said one participant. "Rather than take a chance of violating some regulation, they decided not to present their papers."

7 Abscam Convictions Are Upheld; Entrapment Arguments Rejected

By Paul Taylor
Washington Post Service

NEW YORK — A federal appeals court in New York has upheld the Abscam convictions of four former congressmen and three other persons, finding there was nothing in the government's "sting" operation that violated the defendants' constitutional rights.

"The four congressmen were caught on videotape in the very act of committing federal crimes," Judge Jon O. Newman wrote for a three-judge panel of the 2d U.S. Circuit Court of Appeals. "The conduct of the investigation, though subject to some criticism, affords no basis for rejecting the convictions."

The panel affirmed the convictions Friday of former Democratic representatives Frank Thompson Jr. of New Jersey, John M. Murphy of New York and Raymond F. Lesler and Michael J. Myers, both of Pennsylvania.

They had been convicted of conspiracy, accepting illegal gratuities, and other charges; their appeals had been consolidated from three federal jury trials.

One Charge Reversed

The panel reversed one conviction of conspiracy against Mr. Murphy, who had been sentenced to three years in jail and a \$20,000 fine, should have his fine reduced to \$10,000.

Most of the court's opinion dealt with the question that has plagued the Abscam operation since it was first publicized: Did the government infringe on the due process rights of the defendants by, in effect, creating crimes?

The defendants argued that the "elaborate contrivance of Abscam" took the government beyond the legitimate role of investigating a crime into the forbidden area of instigating a crime.

The court found that although the "sting" was surely elaborate, its essential characteristic was the



The Associated Press

FIRE SURVIVOR — A firefighter holds a child rescued from an apartment fire in Los Angeles. At least 18 persons, including four infants, were trapped and killed in the fire Saturday, and at least 17 persons were reportedly injured.

No Link Seen in Killing, Donovan Case

New York Times Service

NEW YORK — Salvatore D'Onofrio has been indicted on charges of killing Nathan Masselli in what investigators characterized as an underworld business dispute rather than an incident connected to Mr. Masselli's role as a witness in the federal inquiry into the activities of Raymond J. Donovan, the U.S. labor secretary.

Mario Merola, the Bronx district attorney, said Friday that several meetings and "an argument over money" had preceded the killing of Mr. Masselli as he sat in his car with two men Aug. 25. Mr. D'Onofrio, 67, a reputed gangland figure from Valley Stream, N.Y., was accused of being in the car when Mr. Masselli was shot.

California Lawmakers Pass Bonds To Fund First U.S. 'Bullet Train'

Washington Post Service

LOS ANGELES — The California Legislature has approved \$1.25 billion in tax-exempt bonds to finance the first 160-mph "bullet train" in the United States. It would cut the two-and-a-half-hour drive from Los Angeles to San Diego to a 59-minute train ride.

Scheduled to go into full service in 1988, the bullet train, traveling 160 miles (256 kilometers) an hour, would run parallel to the interstate highway linking the two cities for 125 miles. The fare would be more than the current \$16 rail ticket and less than the \$40 cost of a plane ticket.

The feasibility of the \$2-billion project depends heavily on the marketability of the newly authorized bonds. The bullet train plan, a favorite of Gov. Edmund G. Brown Jr., was grafted onto legislation two weeks ago, skirted the usual committee reviews and public hearings and passed both houses with sizable majorities.

"Until two weeks ago I knew about bullet trains was what I read in the Orange County edition of the L.A. Times," said Michael Gagan, chief deputy state treasurer, whose office must decide if the bonds are marketable.

Lawrence Gilson, Amtrak vice president for corporate development and also president of the company that plans to build the bullet train, said he hopes to make a test run on a short section of the route by 1985 and offer 50 round trips a day by 1988. He said Amtrak's two-year study of the proposal indicated that it would improve the environment by diverting 30,000 people a day from auto traffic to rail.

Ex-Envoy Assails U.S. on Cuba

(Continued from Page 1)

Enders said last March, the U.S. finds the record on negotiating with Cuba "dismal." She was referring to Thomas O. Enders, the U.S. assistant secretary of state for inter-American affairs.

Mr. Smith said that in the late spring of 1981, the Cubans, "concerned over rising regional tensions, stated they would favor mutual security guarantees and would be willing to play a positive role in bringing them about."

"During a visit to Washington a short time later, I was told there was no interest in such a negotiating process," Mr. Smith said.

Mr. Smith then said the Cubans, who had claimed in April 1981 that they were not arming the Salvadoran rebels, told the United States in December that they had halted arms shipment to Nicaragua, which the United States says is the primary conduit to the rebels.

After this, in April 1982, he says, Havana offered to begin talks. Washington's response, he wrote, was yet more attempts to isolate Mr. Castro, coupled with continued claims of arms shipments.

Response Urged

"The U.S. interests section in Havana reported these demarches to Washington, and I urged in several cables that we respond to the Cuban overtures, if only to emphasize the strength of U.S. feelings," Mr. Smith wrote. "The Department of State never responded in any way."

The State Department spokesman, in answer to Mr. Smith's charges that Cuban approaches had been spurned, said Saturday, "We have never closed the door on dialogue and we have in fact maintained a dialogue with Cuba even though, as Assistant Secretary

U.S. Juggles Accounts, Ducks Federal Layoffs

By Martin Tolchin
New York Times Service

WASHINGTON — Administration officials, determined to minimize the disruption of government services because of President Ronald Reagan's veto of a supplemental appropriation bill, have devised unusual strategies to avoid the furlough of more federal employees.

One House committee chairman has questioned the legality and propriety of some of those tactics, which include delays in payments of taxes and rents and the juggling of accounts within agencies.

Threats of furloughs and service disruptions have become a staple in fiscal negotiations between Congress and the White House. Although federal employees have taken brief furloughs, the threats have generally proved to be groundless. They have nonetheless embarrassed members of Congress, who feared being portrayed as standing idly by as the government shut down.

Furloughs for 19,000 Internal Revenue Service workers are expected Tuesday as the first major effect of Mr. Reagan's Aug. 28 veto of the \$14.1 billion spending bill, which he called "wasteful and unnecessary." But administration officials say they can wait until Sept. 15, when a new supplemental spending bill could be passed, before facing a real threat of a government breakdown.

"We are using every legal remedy to avoid the need for furloughs," said Edwin L. Dale Jr., spokesman for the Office of Management and Budget, which is coordinating the effort to keep the government afloat.

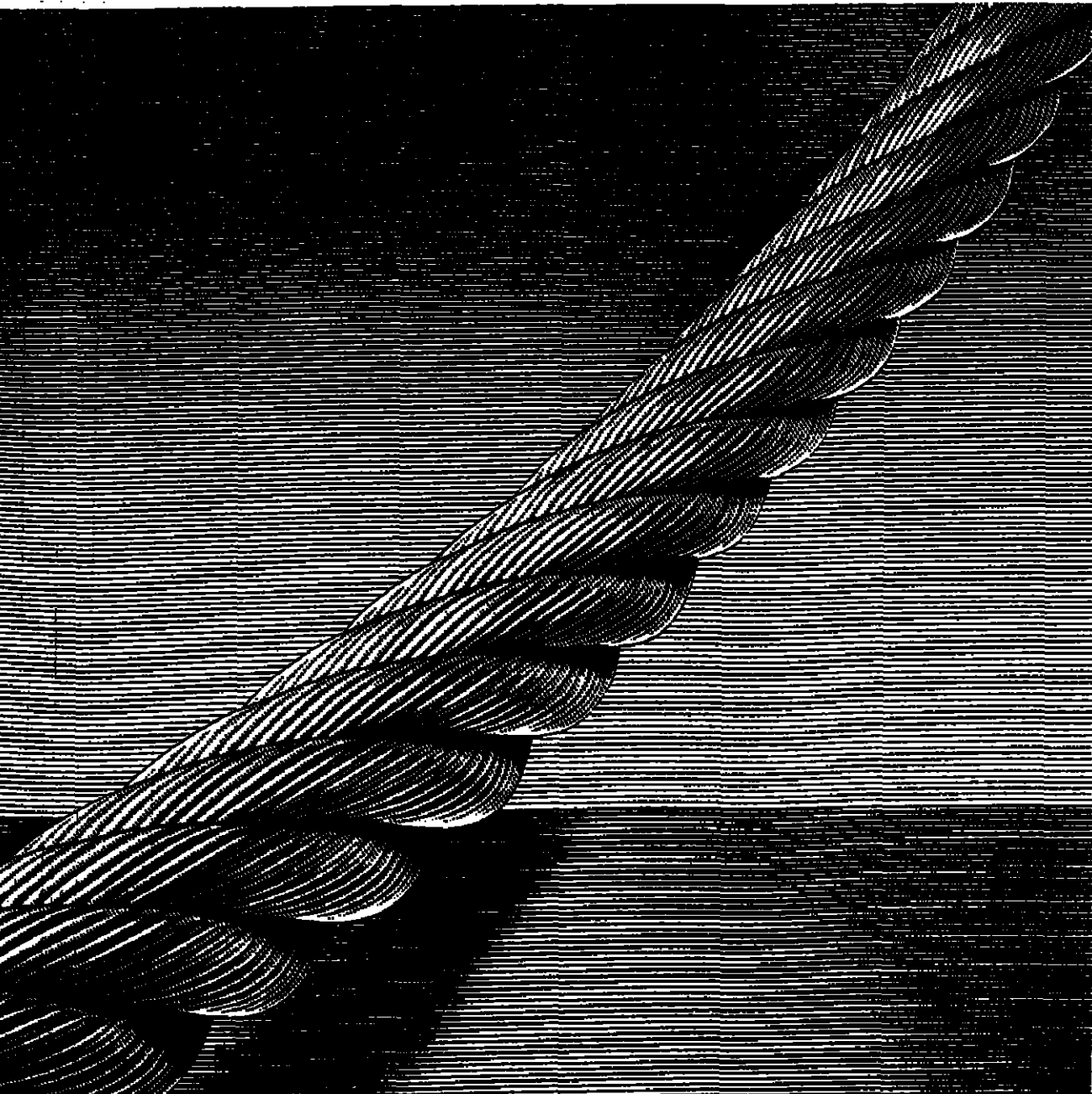
One tactic involves the delay in the payment of federal income and Social Security taxes from the De-

West Germany Arrests Dane on Spy Charges

United Press International

KARLSRUHE, West Germany — A Danish journalist has been arrested by West German authorities on suspicion of spying for East Germany since 1958, the federal prosecutor's office said.

The unidentified 51-year-old journalist, who was said to work in Bonn for several Danish publications, was picked up Friday at Flensburg on the Danish border as he was leaving West Germany, the office said Saturday.



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Herald Tribune

Published With The New York Times and The Washington Post

A Chance for Peace

From THE NEW YORK TIMES

President Ronald Reagan's shrewdly cast peace plan for the Middle East is written in Lebanese, Palestinian, Syrian and Israeli blood. All who welcome last week's dispersal of the PLO and the new Reagan approach to a West Bank deal had best begin by acknowledging the debt to Prime Minister Menachem Begin's bold and cruel march to Beirut.

Where there is no peace, even peacemaking turns on war. If you cheered President Anwar Sadat's visit to Jerusalem and his embrace of President Jimmy Carter and Mr. Begin at Camp David, you were approving a course that began with his pre-emptive Yom Kippur attack. If you marvel at the blossoming desert in Israel, bear in mind that it is indelibly stained. Or, if you argued for the legitimacy of Yasser Arafat's headquarters in Beirut, know that you were also legitimizing his bunkers under playgrounds and anti-aircraft guns atop hospitals.

The point is that ending such a bitter conflict is not just a matter of semantic agility or shuttle diplomacy. To scorn the president's bid for accommodation, or to spoil it with excessive demands, is not only to waste this summer's sacrifice. It is to guarantee more vicious battle in the years ahead.

President Reagan pretends to cool mastery of the situation from his first days in office. But until last week, he had no policy. He wasted a year currying favor in Saudi Arabia and neglecting the Arab-Israeli tensions for a distant Soviet threat. He alternated flattery and punishment of the Begin government without clearly distinguishing mutual interests from important disagreements.

The war in Lebanon dramatized the confusion: Mr. Reagan was unhappy with the attack, but not so unhappy that he did not recognize its potential benefit. The Israeli victory

and Arab (and Soviet) helplessness reconfirmed the Sadat vision: America holds the key to both Arab and Israeli interests; they are best realized when tailored to America's interests and to Israel's derivative power.

It is the custom of diplomacy to disguise this truth of force, but Americans should not again lose sight of the obligations thus incurred. Henry Kissinger grasped this brilliantly in the Nixon and Ford years; Mr. Carter triumphantly applied the lesson. Finally Mr. Reagan has absorbed it, too.

Never mind the details. The president and Secretary of State George Shultz are now working to persuade Saudi Arabia, Jordan, Egypt and Palestinians who will listen that the PLO's rejection of Israel and reliance on terror are a bloody dead end. Such extremists must no longer be held out by the Arab League as the "sole" negotiators for Palestinian rights. Israel will not be defeated. To become accommodating it must have peace.

If the Arab leaders gathering in Morocco Monday draw the proper conclusion from Lebanon, they will not just pick over Mr. Reagan's proposals to find a favorable tilt or two. They will echo Sadat's cry of "no more war" and offer Israeli firm security guarantees in exchange for an unthreatening Palestinian domain in the West Bank and Gaza.

Only then will the true spirit of Israel be revealed. The Israelis who marched into Lebanon have never heard the word peace except from Egypt. They know only that without peace, war decides all. Yet Israel yearns for peace. It will not long be governed by anyone who ignores that yearning or fails to recognize that Israel's first line of security passes through Washington. If Mr. Reagan persists and moderate Arabs accept his path to the table, the Israelis will be there.

Israel's Debate

From THE WASHINGTON POST

The best that could have happened to President Ronald Reagan's Mideast plan is that the people most concerned would look at it hard, and that is happening. The new proposals are being sympathetically if cautiously inspected in wide parts of the Arab world, though not, of course, by the self-styled Rejectionists. If things go well, the forthcoming Arab summit will consider the Reagan plan — and split on it. It is on Israel, however, that special attention is focused, not simply because Israel is a democracy where the policy process is conducted in the open but because Israel is where the plan will stand or fall. If Israel, after studying and debating it, finally says no, the plan is dead. The United States cannot shove it down Israel's throat if the Israelis conclude they will have none of it.

This is the light in which to weigh the Israeli reaction. The ruling coalition led by Menachem Begin quickly and predictably set its teeth against the Reagan initiative. But the largest party, the Labor opposition, which governed from 1948 to 1977 and now holds 50 of the 120 Knesset seats, pronounced the plan "a basis for serious dialogue" and called for an immediate parliamentary debate on it.

Such a debate is the only conceivable way Israel can equip itself to deal with change, and it is a major achievement of the Reagan address to provoke it. It is no surprise to find Labor leader Shimon Peres seizing the issue. The American proposals offer a responsible alternative to Begin policies, and they are grist for the mill of a responsible opposition party, especially one like Labor that believes strongly that the Likud coalition has weakened one of Israel's basic security supports, the American connection. Moreover, the American proposals are consistent with Labor's longstanding disposition to trade off territory in the West Bank for peace, to consider partitioning the West Bank with an Arab negotiating partner, and to regard Jordan in the first instance as that partner.

A great strength of the Reagan approach is that it not only serves, we believe, Israel's vital security and political interests. The proposal also plugs into a point of view that is already held by a major Israeli party and that many other Israeli citizens could conceivably come to as well.

In the coming Knesset debate, much will no doubt be said about the fidelity of Mr. Reagan's proposals to the Camp David text. This goes to the crucial larger question of whether and how Israel can count on the United States as times and circumstances change. A range of scenarios will certainly be examined, including the terrible vision projected in the Begin cabinet's first rebuff to Mr. Reagan: "Were the American plan to be implemented, there would be nothing to prevent King Hussein from inviting his newfound friend, Yasser Arafat, to come to Nabulus [in the West Bank] and hand the rule over to him. Thus would come into being a Palestinian state which would conclude a pact with Soviet Russia and arm itself ... [and] after a while, launch an onslaught against Israel to destroy her."

From a distance, it is very easy to joust with Mr. Begin and to dispose intellectually of such unlikely dragons. On the ground, Mr. Peres and his colleagues have a far more difficult task. Almost every Israeli shares, to one degree or another, the doubts dramatized by Mr. Begin. To avoid being paralyzed by them, people like Mr. Peres must exhibit great political skill and courage.

They must also have outside support. That means a sympathetic attitude to Israel's travails as part of a much larger effort of this foreshadowed by Mr. Reagan's emphasis on persuading Israel rather than imposing an arbitrary American-made solution on it, on the centrality of Israeli security among American concerns, on unequivocal acceptance of Israel by all Arabs and on direct negotiations as the sole method of diplomatic progress. It also means a forthcoming response to the Reagan plan by the Arabs, including Palestinians, with whom Mr. Reagan is asking Israel to share a common fate.

Other Editorial Opinion

Reaction to Poland

The Polish regime's severe reaction to last week's demonstrations is only the latest evidence of the gravity of Poland's crisis. The crisis did not begin with the imposition of martial law, nor with Solidarity's birth two years ago. It began when Poland's Communists, relying in the last resort on the Soviet Army, imposed Stalin's version of Communism on an unenthusiastic Polish people. Since then no Polish government has acquired the legitimacy that only sustained popular support can give.

— The Observer (London).

On World Finances

Finance ministers are always said to be meeting "against the backdrop of the worst economic crisis for years," but this week's annual meeting of the International Monetary

Fund has had more than the ordinary gloomy military buildup. In the words of Mr. Denis Healey (deputy leader of the British opposition Labor Party), no stranger to crisis meetings, it is "the last chance to save the world from a catastrophe even greater than the slump of the Thirties."

It is as bad as that? It could be, if there is a default — and we should not forget that most of Latin America defaulted in the 1930s — and a chain reaction in the banks ensues.

— The Telegraph (London).

The finance ministers and central bankers in Toronto could do worse than ask themselves whether their left hands — the ones that are constructing safety nets for countries in financial difficulty as a result of the recession — know what their right hands — the ones administering chronic doses of deflationary medicine — are doing.

— The Observer (London).

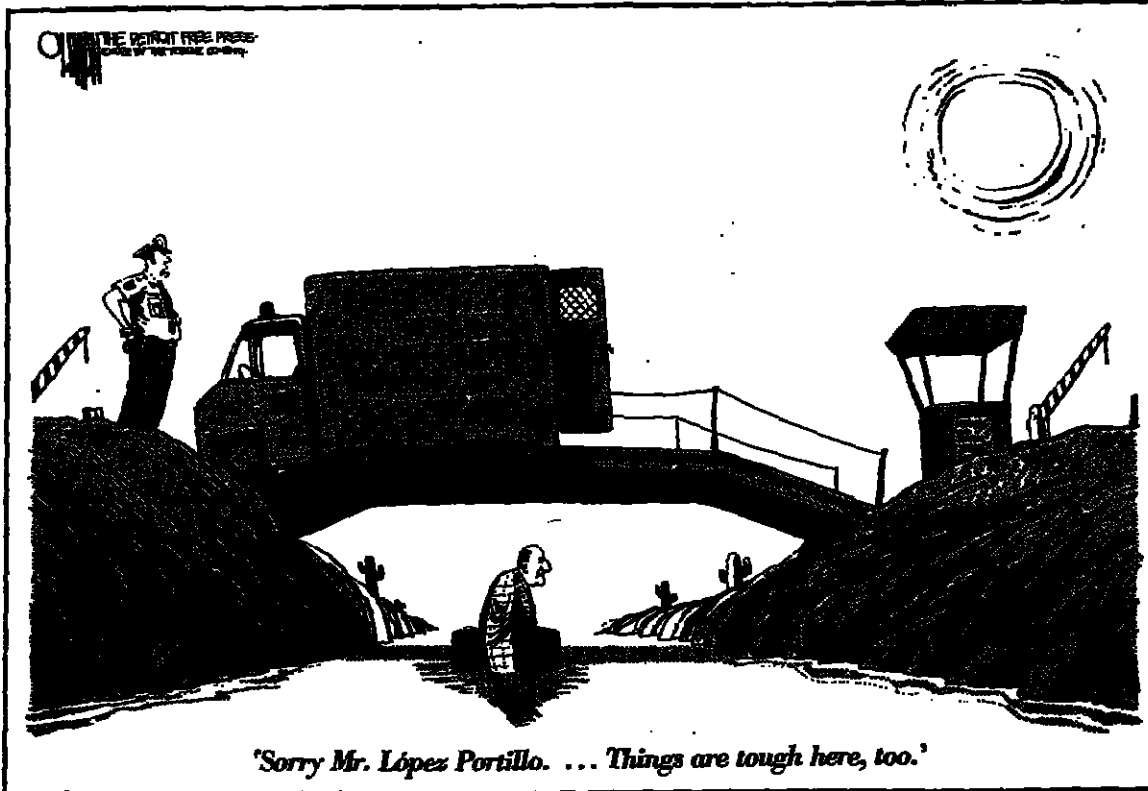
SEPT. 6: FROM OUR PAGES 75 AND 50 YEARS AGO

1907: Dutch Labor Unrest

ANTWERP, Holland — The Shipping Federation again decided to reject all proposals for negotiations with strikers. The conflict in the docks has consumed 5 million francs worth of lumber and the docks have been cut off from the city, telegraph and telephone wires having melted by the heat. The indignation of the community is aroused against the municipality as the destruction might have been avoided if the troops had been called out when the first attack was made on the strike-breakers. The fact that the conflagration is known to be due to incendiaryism will cause trouble in the lumber trade. The city will probably demand proofs of incendiaryism before paying liabilities.

1932: New Nazi Uniforms

BERLIN — Four hundred thousand members of Adolf Hitler's Nazi "army" are estimated to be in possession of new Brownshirt uniforms at a cost believed to amount to about 15 million marks (\$3.75 million). The uniform consists of brown shirts, brown breeches, riding boots, a Sam Browne belt, a brown cap, and perhaps most important of all, a band of red cloth bearing the Nazi "swastika" emblem. The German government has denied having made any contribution toward the cost of clothing the Nazis, and, as far as can be ascertained, no subsidies have been granted from official sources. Whenever possible, the "storm trooper" is called upon to buy his own uniform.



"Sorry Mr. López Portillo. ... Things are tough here, too."

What Is Israel's Next Move?

U.S. Credibility Will Be Key Factor in Decision

By Robert E. Hunter

WASHINGTON — Lest we believe in the fading of presidential authority, last Wednesday Ronald Reagan showed that it still counts. The subject: Arab-Israeli peacekeeping, the upshot: a bold new approach for the United States to try cutting the Gordian knot of the Palestinian problem.

The striking point about the president's speech is what it did not do: It did not break any new ground in substance. It did not technically violate a single clause of the Camp David accords, the ruling text for negotiations on autonomy for the inhabitants of the West Bank and Gaza. The lawyers clearly did their work.

Opposing new Israeli settlements on the West Bank, for example, has been consistent U.S. policy since Camp David itself. Indeed, there was a two-year running battle between former President Jimmy Carter and Prime Minister Menachem Begin, with the former claiming Israeli agreement to suspend settlement building until the autonomy talks were completed, and the latter claiming that suspension was to be for only three months.

On Israeli withdrawal from the West Bank and Gaza, various U.S. administrations have followed the line that some movement back toward the 1967 borders in exchange for peace is implicit in UN Resolution 242, though Washington has not lately repeated this interpretation. Mr. Reagan's assertion that the "final status of Jerusalem must be decided through negotiations" has been U.S. policy for 35 years. And his declaration that autonomy for the West Bank and Gaza should eventually lead to their association with Jordan has been the clear U.S. preference all along, though it has not been shouted from the rooftops.

So why all the fuss? Quite simply, it matters in diplomacy when the president of the United States puts all the pieces together, ties them up in a theme and commits the prestige of his office and his country. And he times his bombshell when the world's eyes are riveted on the matter at hand. Nobody can be indifferent to that combination.

In formally rejecting the Reagan plan, the Begin cabinet's reaction was instant and predictable. What will really matter is the considered Israeli reaction, as well as that of moderate Arab states, in terms of possible opportunities to break the logjams that have long stood in the way of every-one's interests.

President Reagan has undertaken an immense gamble. If he now fails to follow through to a success that can be blessed on all sides — and the difficulties and pressures will be equal to anything he has yet faced — then U.S. credibility in the Arab world, already on the decline, will

sink even further, and the patient Russian bear will find means to reoccupy its recent losses over Lebanon.

Mr. Reagan also has taken a great risk with U.S. credibility in Israel; if his proposal fails, it would be some time before he or a successor could reach into the diplomatic bag of tricks for another approach.

The president in fact has limited tools at his disposal. The threat of reducing military or economic aid to an uncooperative Israel is not one of them. Gaining Israel's trust in America's commitment to its secure future is basic to any peace-making, and as a nation embattled for so long, Israel can be forgiven if it studies the fine print. Nor, despite the president's call for participation in the peace process by Jordan and the Palestinians, is it likely that another Anwar Sadat will suddenly emerge in the Arab world and trek to Jerusalem in recognition of Israel's right to exist.

It is also doubtful that the Reagan administration is gambling on a change in government in Israel, bringing back to power a Labor government whose own positions over the years on the disposition and security of the West Bank and Gaza do not differ all that markedly from what the president said Wednesday night.

If anything, a sense of being let down by their only real friend in the world will lead most Israelis to rally around Mr. Begin, at least for now. However, the administration is gambling that it will succeed in stimulating a real debate in Israel, especially with the changed circumstances for Israel's security after Lebanon.

What Mr. Reagan is left with is his office's power of moral persuasion — especially to foster Israeli debate — and the hope that Saudi Arabia and others will give him a chance. He has, in fact, signaled one other departure

A New Way for U.S. To Deal With Castro

By Wayne Smith

WASHINGTON — Cuba continues to have much the same effect on U.S. administrations that the full moon reputedly had on werewolves. Perhaps there is no sprouting of hair, but a certain frothing at the mouth and loss of rationality are notable. Indeed, Cuba is such an emotional issue that clear and objective analysis is extremely rare. The Reagan administration follows the pattern.

Certainly there is nothing new in the Reagan administration's approach to Cuba. On the contrary, it seems determined to make past mistakes all over again. It came to office striking fierce postures and warning that no option was excluded, not even blockade or invasion. In expecting Fidel Castro to be cowed, the administration displayed an abysmal insensitivity to history.

For 20 years, Mr. Castro has successfully defied U.S.-sponsored invasion, assassination attempts, clandestine CIA radio stations and efforts at

destabilization. The administration's posturing simply implies more of the same. There is no reason to believe such tactics will work any better now than in the past.

To be sure, as the administration came to office, it faced serious problems in Central America that involved the Cubans. Firm but careful admonitions aimed at pointing the Cubans, the Sandinistas and others in the direction of real negotiations and peaceful solutions would have made good sense.

Demonstrably, however, that was not the administration's purpose. Having blown the situation out of all proportion by describing it as a major East-West test of wills, it was determined to demonstrate in no uncertain terms that it could "stop communism in its tracks." It wanted confrontation, not negotiations.

In early 1981 the administration acknowledged that Nicaraguan support for the guerrillas in El Salvador had been drastically reduced, in fact, had Cuba's. Clearly, Nicaraguans' accommodation of U.S. concerns meant that they valued a continuing relationship with the United States, thus giving the United States useful negotiating leverage.

Rather than using such leverage to good advantage, the United States threw it away. The Sandinistas had acceded to U.S. demands, at least in part, but the United States cut off economic assistance anyway. It abandoned diplomacy in favor of confrontation and clandestine destabilization programs. The democratic opposition in Nicaragua told Washington that such a course would simply make matters worse. It did.

The United States also rebuffed Cuban overtures. The administration was not even willing to sit down to discuss an issue of such keen interest to the United States as the return of criminals and others ineligible for entry dumped on the country during the Mariel sea-lift. The Cubans suggested discussions. The United States turned them down.

The only tentative U.S. nod in the direction of dialogue came with Alexander M. Haig Jr.'s meeting with Carlos Roldan Riquelme, then president of Cuba, in Mexico last December, and Mr. Castro's meeting with Gen. Vernon Walters in Havana last March. But these were only preliminary contacts made for the purpose of reiterating Washington's position — and, apparently, of turning aside pressures for serious negotiations. Neither meeting changed the equation in the slightest.

Having thus turned its back on diplomacy, and with very little in the way of leverage to exert against Havana — little, that is, that it has not already tried — the United States is left in the same blind alley it has been in for 20 years.

If future U.S. policies are to have more success than those of the past, the United States must overcome emotionalism. U.S. policy must be geared to clear, realistic objectives and must result from careful thought, not knee-jerk reactions. For example, a principal objective should be to reduce Soviet influence in Cuba. Yet, confrontation works directly against that goal. Mr. Castro cannot loosen his relationship with Moscow so long as he is threatened by Washington.

The United States' best hope of moderating Cuban foreign policy is in demonstrating over a period of time that compromise is in Havana's interest. In the final analysis, serious negotiations and a process of gradual engagement are the only sensible options open to both countries. Neither the historical record nor an objective analysis of the existing situation suggests that this is impractical. Indeed, gradual engagement is the one approach that has never been given a fair chance.

The United States cannot, however, expect miracles. Mr. Castro is a convinced revolutionary and many of his objectives are antithetical to those of the United States. Relations are likely to remain adversarial for a long time to come. But the areas of conflict could be reduced and a more satisfactory relationship gradually worked out. It is not impossible to deal with Castro. Sooner or later, Washington must do so, not because it likes him but in order to advance U.S. goals and interests.

The New York Times.

Why U.S. Allies Must Pay More for Own Defense

By Dennis E. Eckart

WASHINGTON — The United States bears too heavy a burden for the defense of its North Atlantic Treaty Organization allies and Japan.

The United States is wounding its economy by footing 53 percent of the total allied spending on defense. This spending loots the economy of capital that could and should be invested more wisely and immanently to put Americans back to work. It allows NATO and especially Japan to allocate larger shares of their resources to more efficient, productive uses and, in effect, bomb America's economy. All of this is happening while some allies and Japan rig the rules of free and fair trade and export unemployment to the United States.

Unfortunately, the administration suffers from tunnel vision. It advocates spending on an elephantine military buildup when there is lacking a consensus on what constitutes effective strategy militarily and diplomatically to deter Moscow.

Leaders in Western Europe are clearly less conservative and less fearful of the Soviet Union than is President Reagan. There is a shared mutual interest in deterring Moscow's adventurism but the leaders in Western Europe also prefer a strategy that combines political, economic and social relations with the Soviet Union. Thus in the absence of a cohesive American foreign policy the allies have little incentive — at least yet — to agree to share defense spending more equitably. The unfortunate result is nothing but lip service to meet-

ing the allies' defense needs. The allies also remain essentially divided because of conflicting political, economic and social circumstances, all of which the administration fails to address fully in its foreign policy.

It is foolhardy to try to argue that there is some magic mathematical formula for determining each nation's fair share of defense spending. Equity, however, was the overriding principle agreed to when the United States and the allies signed the North Atlantic Treaty in 1949. To achieve the common goal of building sufficient military strength to deter aggression against any member of the alliance, the allies were supposed to agree to distribute the burden "equitably" among all the North Atlantic Treaty countries on a basis agreed to mutually by them.

All the statistics favor sending the allies and Japan a clear signal: The United States is tired of being ill-used. Consider that the United States spends 5.6 percent of its gross national product on defense while collectively the NATO allies average about 3.5 percent and Japan only 1 percent. Per capita the United States invests \$607 on defense. Compare that to NATO's collective average of \$454 and Japan's meager \$84, according to the latest figures available from the Defense Department.

The dilemma of fairly sharing defense costs is not entirely new. The Nixon and Ford administrations attempted to negotiate an allied commitment for more equitable sharing in the costs of NATO's defense umbrella. Finally, in 1977, the Carter ad-

ministration increased their defense spending by at least 3 percent annually in real terms.

A recent Pentagon report suggests that the allies are doing a reasonably good job of meeting the 3 percent commitment. Other Pentagon evidence, however, suggests otherwise. Only half have ever achieved the 3 percent commitment in any single year, and collectively the allies this year are likely to increase their real defense spending by 2.1 percent.

Clearly, it is time to hold the allies' feet to the fire. It is also time to hold the Reagan administration accountable for failing to exercise coherent and steadfast leadership, which coincidentally is precisely what Secretary of Defense Casper W. Weinberger says is critical to keeping the alliance an effective deterrent against the Soviet Union.

America's commitment to Western Europe after World War II was important to restore the allies' economies. They were too weak militarily and economically to guarantee their own security. But by the time President Dwight D. Eisenhower left the White House, he believed a reduction of U.S. strength in Western Europe should be initiated "as soon as the European economies were restored." That has happened.

The allies and Japan are capable of paying their fair share for defense. It is now the economy of the United States that is in ruins and is in need of a helping hand. The time has arrived for the allies and Japan to assume an equitable share of defense spending. America's taxpayers favor

a fairer price. They can no longer be the sugar daddy.

The writer is a Democrat from Ohio in the U.S. House of Representatives. He contributed this commentary to The New York Times.

LETTERS TO THE EDITOR

Russian Labor

Regarding "Pipeline Labor" (Letters, IHT, Aug. 27): David Marsand writes of the price Russian prisoners are paying in blood to supply us with cheaper fuel. Let me point out that the evidence we have seems to suggest the greatest preponderance of the prisoners in in Gulag land are not Russians, but members of the minority nations on Russia's periphery, like the Ukrainians and the Baltic lands.

These smaller, weaker nations, weaker coerced into the Russian Empire by what can only be described as "bank diplomacy." The labor-power of their peoples, and their enormous raw material resources, has helped build Russia into a great power. Russia has also captured their populations as closed, protected markets for the purchase of Russian products. As we left-wingers say: "No nation can be free, if it oppresses other nations."

Russia is not a Communist state, as you mistakenly call it. Rather, it is a great fascist, imperialist power, which pushes Great Russian nationalism up the noses of the nations on her periphery — if they submit to it. However, I don't think you lot at

The author was chief of the U.S. diplomatic mission in Havana from 1979 until his recent retirement. He is now a senior associate at the Foreign Policy Institute in Washington, D.C. This column was adapted for The New York Times from the fall issue of the journal Foreign Policy.

On Diplomacy

Regarding "U.S. Willing to Lift Pipeline Sanction" (IHT, Aug. 28-29): "We are looking for creative diplomacy," said one White House aide. Does this imply the existence of uncreative diplomacy and/or noncreative diplomacy? Perhaps William Safire can elucidate!

SEYMOUR M. LANDSMAN
Paris

On Diplomacy

Letters intended for publication should be addressed to the editor and contain the writer's name and address. Brief letters receive priority, and letters may be abridged. We cannot acknowledge all letters, but we value the views of the readers who submit them.

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مكتبة الأصيل

New French Budget, in a Change of Priority, Trims Commitment to Military

By John Vinocur
New York Times Service

PARIS — The French government has made an important modification in its priorities, scaling down for the time being, at least, its strong, aggressively stated initial commitment to increased military spending.

The outlines of the projected 1983 budget, published last week, show that military expenditure will grow at a slower rate than overall spending, and that new outlays for procurement of military equipment will stagnate.

Although Laurent Fabius, the budget minister, did not point it out, the French press has ignored the matter, the amounts provided for arms spending special-

ly fail to meet a public commitment by Prime Minister Pierre Mauroy to expand the size of the military sector in 1983 in relation to the gross national product.

According to an official, the Defense Ministry budget presented to the public has been fleshed out by including pension payments in it.

In the ambitious current budget, these funds were not military expenditure and were handled by the Finance Ministry, the official said.

Throughout its first year in power, the Socialist government has been particularly keen on stressing its commitment to a strong military. This position not only responded to President François Mitterrand's view on Soviet behav-

ior and imbalances in East-West forces in Europe, but it also involved important aspects of internal politics.

Signal to Officers

Increased military spending was frequently portrayed as a way to help "defeat unemployment," according to an official Defense Ministry publication. At the same time, it meant silencing any opposition forces looking for ways to suggest that the government of Socialists and Communists was not passionately involved in protecting French independence. The military effort had, in addition, the value of being the signal to the French officer corps that socialism had nothing to do with the dismantling of the military establishment.

For allies of France, particularly the United States, a large budget in 1982, the most ambitious in the Atlantic alliance outside of Washington, suggested that Mr. Mitterrand's France would more than pull its weight as an alliance member outside the NATO military command.

In the new national budget, which reflects a retreat from the government's attempt to drown recession with public spending, the military is one of the few major sectors — the others are agriculture, the environment and veterans' affairs — that show a rate of growth lower than the overall average of 11.8 percent.

In nominal terms, the 1983 military budget that will be presented

to the National Assembly for debate calls for 158.8 billion francs, or \$22.9 billion, an increase of 10 percent. The nominal rate of increase last year was 17.6 percent.

Equipment Procurement

If the insertion of pension payments is taken into consideration, the official said, the military budget grows nominally by only 8.44 percent. Since the government is projecting an inflation rate of 8.3 percent for the coming year, and costs of military procurement usually increase by 1 to 1.5 percent more than in the rest of the economy, the allocations outlined in the budget signify marginal or no real growth, or in some areas shrinkage.

Procurement of military equipment, an area roughly covered in the budget under the heading of "program authorizations," is to increase by 8.3 percent. The rate for the current budget was 12.3 percent. Most estimates place French inflation at about 12 percent or more for 1982.

The big increases in military spending in 1982 made it possible for France to remark rather contemptuously about the size of the arms budgets of some of its European neighbors, notably West Germany, where there is stagnation in military spending.

In a speech last November, Defense Minister Charles Hernu said of military spending: "The prime minister has now decided that the

percentage should increase to at least 3.94 of the gross national product in 1983. In this respect, the action of the French government is in contrast with the difficulties that various European countries have encountered." He added, with evidence of satisfaction, "It is true that the latter are affected by a wave of militant pacifism."

The new budget removes Mr. Mauroy's commitment to 3.94 percent of the gross national product next year. The figure will be 3.895 percent, or exactly the same as the current total. This percentage, according to Defense Ministry reckoning, is ahead of West Germany, but behind the French performance in the last year of the presidency of Valéry Giscard d'Estaing, Mr. Mitterrand's predecessor.

The official who provided information about the military budget said that the narrowing in the budget had to do with the devaluation of the franc and a general will to cut back on spending.

Research and Development

He stressed that he believed that major research and development programs remained intact. The overall proportion of military allocations given to the French nuclear forces, he said, actually rose from 30 to 31 percent, and the budget statement itself mentions

New Position Will Combat Italian Mafia

General's Assassination Stirs Anger at Funeral

By Henry Kamm
New York Times Service

ROME — The government of Prime Minister Giovanni Spadolini Sunday created a post of high commissioner for the fight against organized crime.

Meeting in emergency session, the cabinet named to the position the head of a secret police agency attached to the prime minister's office. The official, Emanuele De Francesco, was simultaneously appointed successor to General Carlo Alberto Dalla Chiesa as prefect, or regional governor, of Palermo.

General Dalla Chiesa and his wife were murdered in Palermo Friday night. Gunmen in two cars and on a motorcycle ambushed the small private car that Mrs. Dalla Chiesa was driving.

Mr. Spadolini sent the general to Palermo in May with the special mission of combating the Mafia. He had previously gained a considerable reputation for his success in leading the battle against political terrorism.

The announcement of the creation of the new office, which will have coordinating power over all organs of government in the struggle against the crime syndicates, was made by Mr. Spadolini to a special session of the Senate.

The session was ordered Saturday. The Senate allowed Mr. Spadolini to leave for Palermo to attend the victims' funeral without replying to questions on the killings.

The funeral service became the scene of strong criticism against the government's inability to affirm its power against the Mafia.

The tone was set by a daughter of the 62-year-old general's first marriage and by the father and sister of the 32-year-old wife who was murdered with him. The relatives accused the government of inability to protect the general and his wife.

The archbishop of Palermo, Cardinal Salvatore Pappalardo, made charges of indecisive and weak action against the Mafia the



Margherita Dalla Chiesa at her father's coffin.

principal theme of his oration. Then, evidently emphasizing his criticism, he stepped from the pulpit to greet President Sandro Pertini and pointedly ignored the prime minister and other cabinet members.

The president is considered above politics and has not been criticized.

The critical attitude toward Mr. Spadolini and his ministers was shared by the large crowd in the church and on the square in front of it. Government members were insulted and some members of the crowd threw coins at them while the coffins of the victims were applauded.

Sunday's national newspapers gave prominence to the expressions of rage, heightening the gov-

ernment's sense of urgency to calm the national mood.

Mr. Spadolini was unable to report success in the principal task, the hunt for the murderers.

According to police sources, no witnesses have come forward. This is viewed as a measure of the terror that the Mafia exercises over the citizens of Palermo and other regions of Sicily. About 100 murders have been committed in the Sicilian capital this year; most are assumed to have been settlements of gangster accounts and remain unsolved.

But in the last three years, several prominent officials have been murdered in Palermo and surrounding regions. All the murders remain unsolved.

2 Spanish Bishops to Meet Pope

Reuters

MADRID — Two senior church officials left for the Vatican Sunday and well-informed church sources said they would suggest that Pope John Paul II postpone his visit to Spain in October to avoid a clash with a general elections campaign.

Monsignors Gabino Diaz Merchan and Fernando Sebastian, president and secretary-general of the Spanish Episcopal Conference, said they would make no recommendation but would explain the situation and leave the decision to the pope.

An emergency meeting Saturday, 31 Spanish bishops discussed the visit, Oct. 14-22, which would

coincide with the campaign for general elections, scheduled for Oct. 28. Church sources said a majority of the bishops favored a postponement to early November so the visit would avoid political overtones.

The Socialist Party, favored by opinion polls to win the election, says a papal tour would favor conservative parties. Church leaders have deplored what they called the political exploitation of the visit.

The center-right government of Prime Minister Leopoldo Calvo Sotelo decided Saturday to recommend that the pope come as scheduled, an official spokesman said.

Lieutenant Colonel Antonio Tejero Molina, the Civil Guard of-

ficer who led an abortive coup last year, launched an extreme rightist party from prison Sunday with a tape-recorded message to his supporters. Colonel Tejero is awaiting the result of an appeal of a 30-year prison sentence.

The organizers of the party, Spanish Solidarity, told supporters that Colonel Tejero would run for a Madrid seat in the general elections. But the government said it would not accept his resignation from the army, a prerequisite for standing for public office.

The legality of his candidacy is not clear. The government has asked the electoral commission to study the issue.

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Mining Pact With Europeans Lifts U.S. Hopes of Skirting Sea Treaty

By Thomas W. Lippman
Washington Post Service

WASHINGTON — The United States and three West European nations have signed an agreement on deep-sea mining claims that removes another potential irritant to the troubled Atlantic alliance and gives new hope to U.S. companies that the United States can circumvent the mining provisions of the Law of the Sea Treaty.

France, West Germany, Britain and the United States agreed to resolve through consultations any conflicting claims filed by seabed mining consortia under their existing laws and to consult each other before issuing any authorization for seabed mining operations.

In the interim agreement signed Thursday, the European nations reserved the right to ratify the Law of the Sea Treaty. The agreement permits exploratory work in progress to continue until the treaty takes effect, but it allows the administration official put it, allows the Europeans to "keep their options open."

The U.S. mining industry fears it will not be allowed access to the mineral riches on the ocean floor because the United States — alone among major industrial nations — has announced its refusal to sign the treaty. Friday, the industry welcomed the new agreement as a possible breakthrough toward pacts that would circumvent the treaty.

"I think it's good news," said Charles Cook, vice president of the American Mining Congress. "It's significant that France, Britain and West Germany are in on this. They're the only ones besides us who have the wherewithal to do any actual mining, the ones who have the technology."

"With the treaty, the door was shut on us," said Conrad Welling, executive vice president of Ocean Minerals Co., an ocean-mining

Military Leader In Panama to Quit

United Press International

PANAMA CITY — The powerful head of Panama's National Guard, General Ruben Dario Paredes, has announced his intention to step down and return command of the armed forces to the president.

In a letter to President Ricardo de la Espriella and National Guard members, General Paredes said Saturday he would leave his post Saturday to comply with a constitutional dictate that gives the president control of the armed forces. Commanders in the armed forces, however, have initiated a campaign to fight the resignation.

Mr. de la Espriella is empowered by the constitution to lead the armed forces or choose a commander.

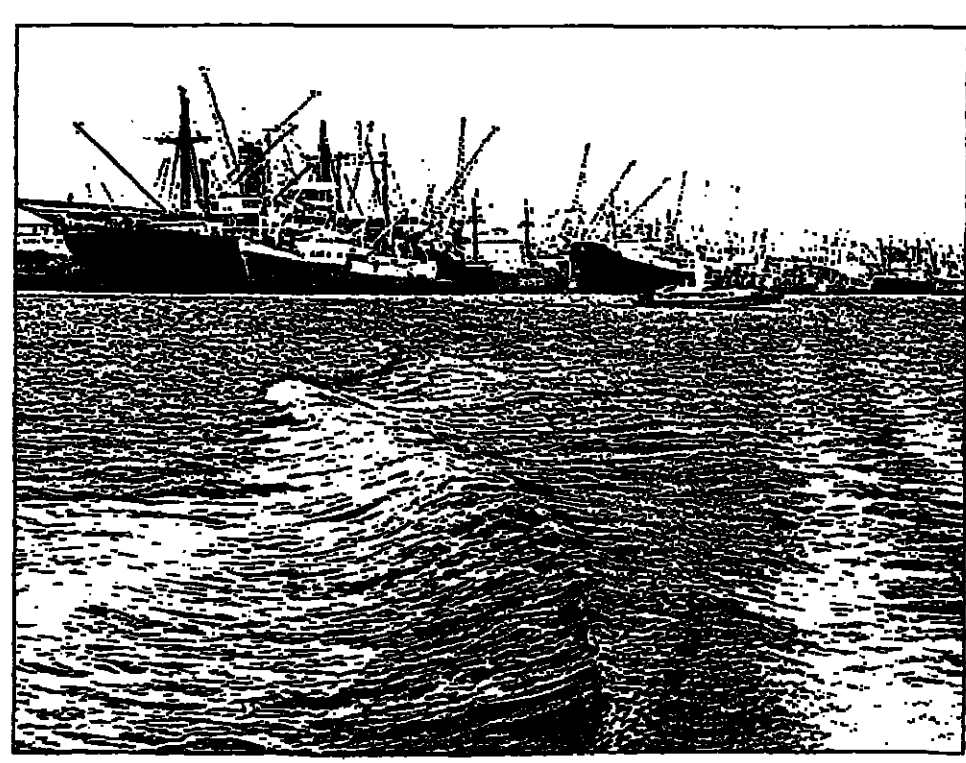
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López Portillo Gains Working Class Cheers For Decision on Banks

By Alan Riding
New York Times Service

MEXICO CITY — President José López Portillo of Mexico, who just days ago appeared to have lost all power and popularity, stood on the balcony of the National Palace Friday and received the support of about 300,000 workers, farmers and civil servants for his decision to nationalize the country's private banks.

Looking out on waving flags and huge banners, he heard speeches eulogizing him as "the patriotic president" and comparing his decision to nationalize banks to the expropriation of foreign oil companies. He then thanked the crowd for supporting "this profoundly revolutionary measure."

The meeting in Mexico City's Zócalo, or central plaza, a traditional feature of the country's political ritual, also served to demonstrate the continuing strength of the Institutional Revolutionary Party's political machine at a time of widespread disillusionment with the long-ruling system.

Pro-government labor and farm movements brought groups of supporters from all over Mexico, and civil servants were given the morning free to ensure their presence. Cabinet members and the country's governors were present. Many leftists, forgetting their recent criticism of the administration, joined in the applause for the bank nationalization.

The president's decision to decree such a dramatic reform just three months before leaving office

has nevertheless polarized political feelings in the country.

It also served notice to President-elect Miguel de la Madrid, who is rumored to have opposed the move, that Mr. López Portillo intended to rule the country in fact as well as in name until Inauguration Day on Dec. 1.

The first major response from the private sector appeared Friday in the form of a full-page advertisement in the daily *Excelsior*. Signed by the Business Coordinating Council, the statement denounced the bank nationalization as "a definitive coup against private business activity and a clear sign of the country's entry into Socialism."

"The expropriation was a totally unnecessary measure that will bring serious consequences for the economic life of the country," it said. "The government looked for someone to blame for a situation that is not the fault of the banks."

In his final State of the Union address Wednesday, Mr. López Portillo justified the nationalization by holding the country's private banks responsible for the enormous flight of capital that has undermined the country's currency and thrown the economy into disarray.

But many Mexican analysts have interpreted it as an entirely political measure aimed at rescuing the president's image in the perspective of the history of the Mexican Revolution.

"It had all the trappings of an act of political despair," a Mexican journalist said. "In the short run, it was a brilliant stroke of demagoguery, but it didn't really make much sense."

Other analysts, including well-placed officials, argued that while the nationalization was a demonstration of the power of the president and the state it would bring the country no closer to solving its economic crisis. "But in 50 years' time, López Portillo will be remembered only for what he did on Sept. 1," an official said. "And that's what he was thinking of."

French Envoy to Israel

The Associated Press

PARIS — France has named Jacques Dupont, 52, to replace Marc Boname as ambassador to Israel, according to an official announcement published Saturday.

Panda at Madrid Zoo Gives Birth to Twins

United Press International

MADRID — Shao Shao the panda, the star of the Madrid zoo, has given birth to twins. It was the first such birth outside of China and one of the rarest in the annals of zoology.

Zoo officials said after the birth Saturday that the mother and cubs were doing exceptionally well. "The animals are in perfect health, and we believe they can survive," a zoo spokesman said.

The veterinarians who attended the birth, Antonio Luis García del Campo and his wife, Liliana Monsalve, said it was too early to tell the sex of the babies.

Shao Shao, who is 7 years old and weighs 200 pounds (90 kilos), is one of the few pandas born in captivity. She and her mate, Chang Chang, who was captured in the wild, were given to King Juan Carlos when he visited China in 1978. Relations between the pair have never been passionate, and veterinarians believe Shao Shao's pregnancy resulted from artificial insemination from the London Zoo's Chia Chia.

Leftist Guerrillas in Iran Claim to Have Killed 100

Reuters

LONDON — The Iranian People's Mujahidin said Sunday its guerrillas had killed more than 100 Revolutionary Guards in Tehran during the past week.

The Paris office of the leftist underground movement said by telephone that the guerrillas had carried out at least 15 attacks each day in the Iranian capital.



President José López Portillo acknowledging applause at a rally supporting the bank takeover.

6 African States Reject Cuban Link to Namibia

United Press International

LUSAKA — The leaders of the six so-called front-line states in southern Africa have rejected the idea of linking the withdrawal of Cuban troops from Angola to attempts to find a settlement for South-West Africa.

The leaders, who held a 4-hour summit meeting on Saturday, said that linkage would hinder the negotiations for the independence of the territory, which would become independent with the name Namibia. They expressed full support for an agreement drawn up by Angola and Cuba in February, making clear that the presence of the troops was a bilateral matter.

"The summit unequivocally emphasized the importance of separating the decolonization process in Namibia with the existence of Cuban troops in Angola," a communiqué said.

The United States and South Africa have both said that the estimated 20,000 Cuban troops in Angola must leave as part of a peace settlement. Angola says the Cubans are there to protect the country from the threat of South African invasion and will leave only when the threat no longer exists.

"The insistence on taking this issue is against the letter and spirit

of United Nations Security Council resolution 435 and can only impede the process of negotiations. Such an insistence also constitutes an interference in the affairs of Angola," the communiqué said.

The leaders said a new element "has been introduced by the United States which attempts to link the negotiations for the independence of Namibia with the withdrawal of Cuban forces from Angola."

They rejected any attempt "to ascribe responsibility to the people of Angola for the delay in the speedy conclusion of negotiations leading to the independence of Namibia."

The communiqué also condemned South African "aggression and invasion of Angola" and called on Pretoria to withdraw its forces from Angola.

The summit was attended by Presidents Kenneth Kaunda of Zambia, Quett K. Masire of Botswana, Julius K. Nyerere of Tanzania, José Eduardo dos Santos of Angola, Samora Machel of Mozambique, Prime Minister Robert Mugabe of Zimbabwe and Sam Nujoma, leader of the South-West Africa Peoples Organization.

Dock Strike Is Feared in South Africa

New York Times Service

JOHANNESBURG — Nearly 400 black dockworkers in Port Elizabeth have been fired and are to be deported from South Africa in a move that labor leaders fear could provoke a national dock strike.

The men were bused off the dockside after being dismissed Wednesday, the third day of a slowdown they had begun in an attempt to win recognition of their union.

Most of the men were recruited from the Transkei and the Ciskei, two of the so-called black homelands that South Africa has proclaimed constitutionally separate states. The government can deport the men summarily to these areas without bringing any charges in the courts.

A spokesman for South African Transport Services, the state-owned corporation that runs the country's railroads and harbors, said the men were to be paid off and then taken by bus and train to their homes. Those living in hostels owned by South African Transport were given notice to vacate, the spokesman said.

David Lewis, leader of the General Workers' Union, which represents the workers, said the situation would be explosive if the men were deported. He said there could be strong pressure from other workers in the union for a national dock strike.

The General Workers' Union is recognized by the stevedoring companies in South Africa's four major ports — Durban, Cape Town, Port Elizabeth and East London — as representing black workers who load and unload ships. But South African Transport, which is responsible for the loading and unloading of railroad cars at quayside, refuses to recognize the union.

The recognition dispute has dragged on for almost a year. Black dockside railroad workers began a slowdown Monday in an effort to put pressure on South African Transport.

Other employers in Port Elizabeth, notably the South African subsidiary of the Ford Motor Co., have publicly criticized South African Transport's refusal to deal with the General Workers' Union. Auto assembly is the main industry in the city, and the motor companies worry that a full-scale dock strike could not only interrupt supplies of imported components but could further damage industrial relations in Port Elizabeth, where there is already a strike in the auto industry.

The buildup of race and labor tension in Port Elizabeth occurs only a few days before a delegation from the American Federation of Labor and Congress of Industrial Organizations is to arrive to study the South African labor situation. The U.S. organization has previously avoided visiting South Africa for political reasons.

Swiss Canton Endorses Mandatory Voting Law

The Associated Press

SCHAFFHAUSEN, Switzerland — Voters in the northeast Swiss canton of Schaffhausen overwhelmingly endorsed Sunday a local law requiring them to participate in elections or pay a 3 franc (\$1.43) fine.

An initiative to abolish mandatory balloting was turned down by 18,849 votes to 10,758, about a 9-to-5 margin, according to unofficial returns. Schaffhausen is the last canton to require voter participation.

Pacemaker Companies, Physicians Accused of Defrauding Medicare

By Philip J. Hites
Washington Post Service

WASHINGTON — Kickbacks and price-boosting by manufacturers of heart pacemakers, as well as thousands of unnecessary operations to implant the devices, may be costing the Medicare system as much as \$200 million a year, according to an investigation by the Health and Human Services Department.

More than 130,000 pacemakers were implanted in Americans last year, and 80 percent of those procedures were paid for by Medicare. The investigation found that the Medicare system was being charged more than the catalog price for various makes and models of pacemakers, and it uncovered kickback schemes that pay doctors up to \$200 each time they agree to implant a company's pacemaker.

In addition, the department found, companies commonly give doctors gifts such as car leases, ski vacations, trips to Las Vegas and the option to buy stock in the profitable pacemaker companies at discounted prices.

Investigators Richard S. Schweiker, on the basis of his department's findings and those of several other investigations, has established a task force to recommend action against abuses in the use and sale of pacemakers.

The pacemaker is a two-ounce

device implanted on the chest, with small wires patched to the heart muscle, which emits electrical pulses to set the heart rate at a steady, smooth pace.

17-Percent Overcharge

As an example of abuses, the inspector general's office at the department found that the price charged to Medicare for the devices was more than 17 percent higher than the price for the same make and model listed in the federal supply catalog and sold to other government agencies.

Knocking out the price inflation alone would save \$64 million a year, Mr. Schweiker said.

In an interview Saturday, he said that his department has turned evidence of improper sales practices over to the FBI and that he could not discuss details of the investigation.

But a department official said investigators had found that some doctors get rebates of \$50 to \$200 for each pacemaker of the company brand that they implant, often on an escalating schedule that raises the payment as the number of implants goes up, with an additional bonus if a quota is met by the end of the year.

Investigators also found that some doctors and pacemaker companies had formed "silent partnerships" or that doctors were paid for "consulting" jobs that involved little work. They were told by a

former pacemaker company official: "Anything two intelligent people can work out is being done."

Questions have been raised in the past about the number of pacemaker implants being done in the United States. The number has doubled in the last seven years and is more than three times higher than the average rate in other developed countries.

Mr. Schweiker referred to what he called a "very impressive" report, released earlier this year by the Public Citizen Health Research Group. The report found that nearly a quarter of all the pacemaker implants in Maryland hospitals in a recent two-year period were unnecessary and that 13 percent more were of questionable medical value.

The group estimated that 25,000 or more pacemakers are implanted needlessly every year. By the group's estimates, cutting back on unnecessary implants alone could save Medicare \$210 million annually.

Mr. Schweiker said the department might seek to lower the limit that Medicare will pay for pacemakers. He also said he would advance to Medicare research that there is no inflation in the cost, or to install some kind of review system to assure that pacemakers are implanted only when they are needed.

Sir Douglas Bader, Legless Pilot Who Became War Hero, Dies at 72

Reuters

LONDON — Sir Douglas Bader, 72, the legless flying ace whose last-than-life bravado helped make him Britain's most famous pilot in World War II, died early Sunday, apparently of a heart attack.

Sir Douglas lost both legs in a flying accident in December 1931, but at the outbreak of war he talked his way back into the air force as the pilot of a Spitfire fighter. He destroyed an estimated 30 enemy planes, of which 22 were officially confirmed, and escaped four times as a prisoner of war.

In 1931, after his airplane crashed during an aerobics display, a surgeon told him that both his mangled legs had been amputated. Sir Douglas reportedly said: "That's all right, sir. I'll get some longer legs. I always wanted to be taller."

The legs he received in fact made him slightly shorter. He had many falls and setbacks learning to walk again, but eventually he not only walked unsupported but also danced, swam, and played tennis, cricket and low-handicap golf.

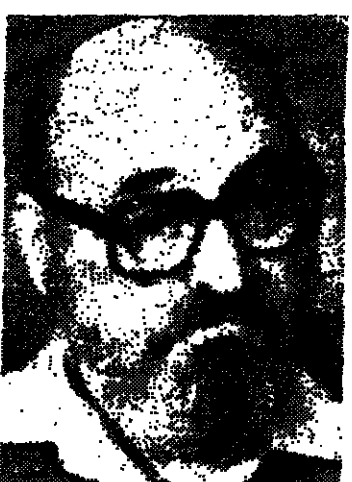
Eighteen months after the crash, he was invalided out of the British Air Force and went to work for an oil company. But when war broke out in 1939 he badgered air force officials into letting him fly again.

In a Spitfire over the beaches in northern France he scored his first "kill," downing a Messerschmitt 109. He tried to jump from his Spitfire after a collision with a Messerschmitt that cut off the tail of his plane over France in 1941, but his right leg caught in the cockpit. The Spitfire spiraled down from 23,000 feet (7,000 meters) to 4,000 feet before he could free his leg. He finally bailed out, then was captured.

He escaped from his prison camp four times but was always caught, and his captors then took his legs away each night.



Sir Douglas Bader



Frederic Dannay

Sir Douglas was knighted in 1976 for his work for the handicapped.

Frederic Dannay

Compiled by Our Staff From Dispatches
NEW YORK — Frederic Dannay, 76, co-writer of the Ellery

Queen detective tales, died Friday after a brief illness. He had long had diabetes.

Mr. Dannay's collaborator, his cousin Manfred B. Lee, died in 1971, and, in a sense, so did Ellery Queen with the publication of their last Queen novel, "A Fine and Private Place." Since then, Mr. Dannay had edited anthologies of detective stories and supervised the editing of Ellery Queen's Mystery Magazine, a monthly publication with a worldwide circulation.

In 1928, Mr. Dannay, then an advertising copy writer and account executive, and Mr. Lee, a movie publicist, decided to enter a contest sponsored by McClure's Magazine to write a mystery novel. In their winning piece, "The Roman Hat Mystery," the name Ellery Queen was given to both author and hero so that readers who forgot one might remember the other.

At the time of Mr. Lee's death, they had produced more than 100 novels, anthologies and collections of Queen short stories, putting their total sales at about 100 million copies. There were movie scripts and an Ellery Queen radio series, and in the 1970s, a television series. In 1941 they began publishing the magazine. Under the pseudonym Barnaby Ross, they also wrote novels about the detective Drury Lane.

For many years, their identities were kept secret. In 1932, when Queen was invited to lecture on detective writing at a college, Mr. Lee arrived wearing a mask.

Rudolph J. Schaefer
NEW YORK (AP) — Rudolph J. Schaefer, 82, who built a family business into the United States' sixth largest brewery, the F. & M. Schaefer Brewing Co. of Brooklyn, died Thursday after a brief illness. Last August the Schaefer brewery was taken over by the Stroh Brewery of Detroit.

U.S. Rejecting Many Cambodians In Tightening of Rules on Refugees

Reuters

KAMPUT CAMP, Thailand — Cambodian refugees at this camp in eastern Thailand are starting to receive what aid workers call "doom letters" — terse official notices telling the refugees that their applications to live in the United States have been rejected.

The Cambodians who received the letters last week were deeply disappointed. Most of them have been living in United Nations-run camps in Thailand for more than three years, and during that time, they have seen tens of thousands of their countrymen leave.

But in 1980, the U.S. Congress adopted the UN definition of a refugee as someone who can show "a well-founded fear of persecution on account of race, religion, nationality, or membership in a particular social group or political opinion."

Almost Half Rejected
The U.S. Immigration and Naturalization Service recently began interviewing the 20,000 Cambodians in Kamput Camp to see who qualified for resettlement. About 1,800 people have been rejected, almost half of those interviewed so far, refugee officials said.

The INS is applying the new guidelines to the letters, and that means that many [Cambodians] do not fit the definition of a refugee," one official said.

The INS contended that many of the Cambodians here could go back to their homeland, occupied by Vietnamese troops who toppled the Khmer Rouge government in 1973, and were therefore merely "economic refugees" seeking to get into the United States, the official said.

But Cambodians in the camp said that it was impossible for them to go home. "Anyone who fled from [Cambodia] will be treated like a traitor if he goes back," said a young man who had just learned that he and his family had been rejected.

Under the new rules, refugees with the best chance of being accepted by the United States are those having connections with the U.S.-backed governments in Indochina before 1975, the year of the Communist Khmer Rouge takeover in Cambodia.

The INS most suspects refugees with family members already in the United States as trying to emigrate to avoid the economic hardships of Indochina, refugee officials said.

INS representatives have declined to comment on the agency's work at the camp.

Before the new guidelines were imposed, anyone from Indochina who had fled his homeland was considered a refugee.

More than 385,000 Cambodians, Laotians and Vietnamese have been resettled from Thai camps to the West since 1975, the majority to the United States, according to UN figures.

The letters to the newly rejected Cambodians, signed by a U.S. Embassy official, conclude: "I urge you to seek resettlement in another country."

A refugee official said, "Australia, Canada and France have accepted some of those rejected by the U.S., but their quotas are nearly full. If the U.S. rejection continues at this level there will many people left behind in Kamput."

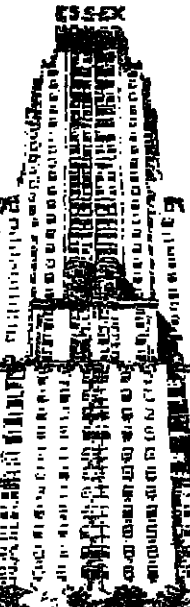
Canadian Killed on Everest

Reuters

KATMANDU — A Canadian climber was killed by an avalanche while trying to climb Mt. Everest, the world's highest peak, the Nepalese Tourism Ministry said Saturday. George Griffin, a 35-year-old photographer with a 15-year climbing record, was killed.

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Electricite de France	\$100	1989	13%	100	13%	Non-callable.
Electricite de France	\$50	1989	14%	open	—	First call at 101 1/4 in 1986.
Electricite de France	\$100	1992	8%	100	8%	—
Oesterreichische Kontrollbank	\$100	1989	8%	100	8%	First call at 100% in 1987.
Republic of Ireland	\$100	1987	9%	100	9%	Non-callable.
Republic of Ireland	\$100	1994	10%	open	—	—

Softer U.S. Stance On World Debt Still Vexes Third World

By Clyde H. Farnsworth
New York Times Service
TORONTO — The Reagan administration is softening somewhat its approach to the economic problems of the Third World. But despite signs of greater generosity, it is still at odds with most other countries over the resources and policies needed to head off a world financial crisis brought on by too many countries owing too much to too many commercial banks.

Both the softened attitude and the continuing differences were apparent in Toronto as delegates prepared for the formal opening Monday of the 37th annual meeting of the International Monetary Fund and the World Bank.

This year the external debt of the developing countries will rise above \$500 billion, twice the level of six years ago. High interest rates, slack world trade, plunging commodity prices and shrinking aid have made it difficult for a growing number of countries to meet their payments.

Ministers representing nearly 100 developing countries warned that if these adverse trends continued, the whole international system of trade and finance could collapse.

2 Reasons for Change
A world debt crisis could trigger an even sharper global business contraction, boosting unemployment in developed and developing countries and wiping out all hopes, it is feared, for a U.S. recovery in the fall.

Washington's somewhat greater generosity has resulted, analysts said, not only from a sharpening awareness of global interdependence, but also from a shift in the political coloration of the administration, which has moved from doctrinaire conservatism to greater pragmatism.

Some evidence of the change came in the United States' swift response last month to the call for help by Mexico, the biggest debtor in the Third World.

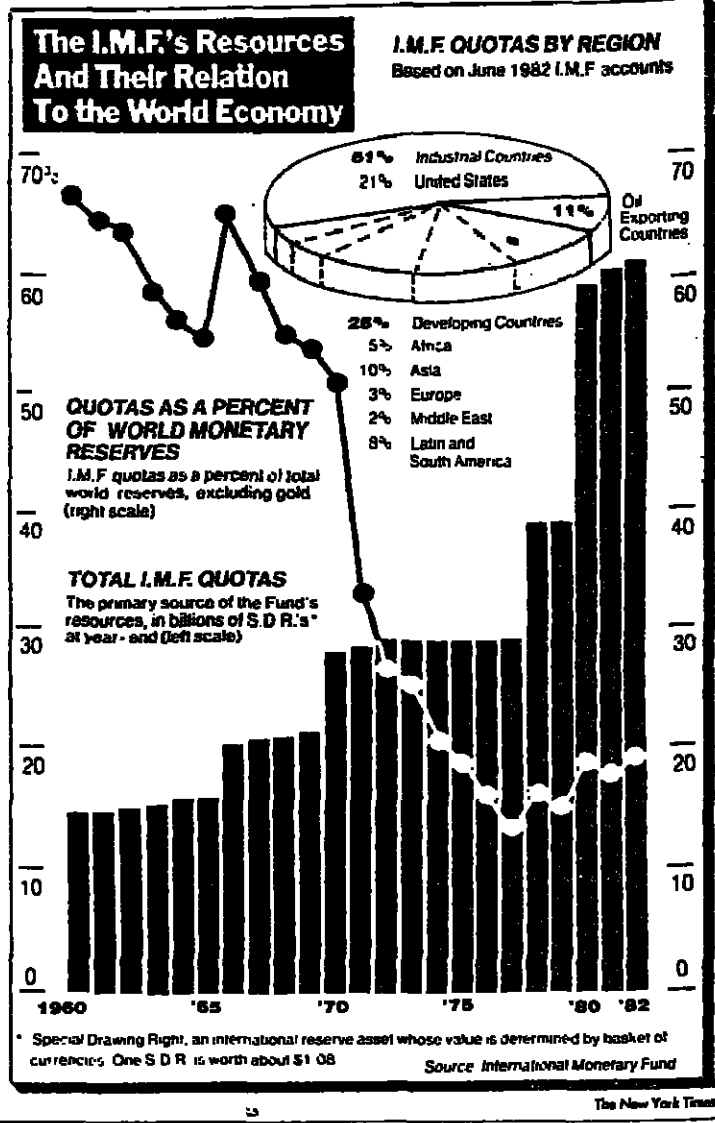
Mexico, cash-poor but oil-rich, is seeking emergency loans and postponement of \$10 billion in payments coming due on its \$81 billion overall debt to foreigners. The United States provided some credits and helped to arrange others from the international community.

Increases Were Resisted
But the exchange controls Mexico decreed last week may make it more difficult for it to qualify for a prospective \$4.5 billion loan from the monetary fund.

Of the other debtors that may not meet their payments this year, Brazil owes nearly \$75 billion, Argentina \$35 billion, Poland \$26 billion and Cuba \$1 billion.

U.S. Treasury Secretary Donald T. Regan said last week, "Obviously, there is danger to the banking system at this point until such time as these problems can be worked out."

President Reagan has been resisting efforts to pump new money into either the monetary fund or (Continued on Page 13, Col. 5)



Interest-Rate Swaps Create Profit All Around

By Terry Gross
International Herald Tribune
PARIS — Interest-rate swaps may be the best thing to come along since P.T. Barnum.

The big difference is that no one is being suckered. All the shells in this game have been under them. Everybody wins, nobody loses.

"That's true, really," said Joan Beck, vice president of Morgan Stanley International, which has arranged four public swaps and one private swap in about two months, including one last week for Bank of Tokyo. "The Bank of Tokyo is ending up with floating-rate funding that is attractive, and

winners. The Eurobond managers and underwriters get the normal fees involved in the launching of an issue, and the bank that arranges the swap gets a fee. Mr. Beck, while declining to name the figure in the Bank of Tokyo arrangement, said fees vary from 1/4 percent to 1/2 percent.

For that fee, the arranging bank takes the additional risk of guaranteeing that interest will be paid all around but does not take on any risk on principal repayment.

There was agreement that while it was "pretty good business," in the words of one banker, it could also involve quite a lot of work to find the floating-rate side of the deal.

"These deals are hard to do and can take a lot of time," Mr. Beck said. "Sometimes you run out of time and work for the Eurobond deal."

It was understood that Morgan Stanley won the mandate on the Bank of Tokyo bond issue because it found the swap partner. At least one other bank had been involved in looking for Bank of Tokyo's swap partner before Morgan Stanley came into the picture. While he did not know exactly how long the entire deal had taken to set up, Mr.

Beck said that it was "at least a couple of weeks."

"Some deals get done in three or four days," he said. "Others take a number of weeks."

Also earning additional fees for the additional work involved in a swap are the lawyers. One Euro-market lawyer who has dealt with swaps said that while "the ideas are not complicated in themselves, it is a continual headache getting everybody in the right place at the right time, that is, able to commit themselves."

He said that once the bond issue is announced, there is a definite countdown. "The bond issuer doesn't want to close until he knows he has the counterparty on the hook," the lawyer said. "But he has to close on a certain date. The counterparty may have no particular incentive to muck up his corporate schedule" to fit into someone else's timetable.

The last element in any capital market equation is the final investor. One question that arises is whether the investor faces any additional risk when his bond is involved in a swap.

The Warburg spokesman said that for the investor "there is no

interest rate swap. His security is exactly the same."

The investor will continue to hold, for example, Bank of Tokyo paper guaranteed by Bank of Tokyo. If the swap partner were to go bust, its floating-rate loan would be lumped together with its other debts, which would be a problem for the creditors. The Bank of Tokyo paper would remain in the hands of investors, who would continue to clip their coupons and collect their interest.

Carl Gwizditz is on vacation. His columns will resume Sept. 13.

Mexico Expected to Lower Rates

New York Times Service
MEXICO CITY — Mexico's banking system, nationalized last Wednesday, will lower interest rates when banks reopen Monday in the hope of appeasing business opposition to the takeover, according to well-placed officials.

One key official said, "Once they see interest rates dropping, businessmen will soon forget about the banks. After all, how many people have been directly affected by the nationalization? Twenty? Twenty-five? Surely no more."

In recent months, banks have been charging their best customers between 55 percent and 60 percent interest on peso loans, and the expectation is that the rate will drop by four or five points this week.

Officials now are also talking openly of returning to the private sector the nonfinancial assets of the 40 or so banks that were nationalized.

Many of the larger banks owned

President Lopez Portillo's Mexico bank takeover was applauded by 300,000 people at a rally, Page 6.

shares in important international and local corporations involved in petrochemicals, food processing, tourism, commerce and construction.

Although businessmen are concerned about the long-term credit policies of the state banks, many seem more worried about how foreign currency markets will operate when they reopen Monday under the government's new system of total exchange controls.

The 100 or so representative offices of foreign banks in Mexico City were not affected by the nationalization decree, but many complained that their telephones and telexes had been cut off by the government for two days.

One American banker said, "The few phones that are working are being busily and noisily tapped."

France Struggles to Head Off 3d Devaluation

By Paul Lewis
New York Times Service
PARIS — The French franc has again come under heavy pressure on foreign exchange markets.

The Bank of France has acknowledged that it is once again losing reserves at a dangerously rapid rate and is struggling to avert the third devaluation of the franc since the Socialists came to power 15 months ago.

Figures issued by the central bank Thursday night showed that it lost the equivalent of \$575 million of foreign exchange reserves during the week ended Aug. 26, combating a speculative attack on the franc sparked by rumors that President Francois Mitterrand will soon withdraw the franc from Europe's fixed exchange rate monetary system and let it float freely against other currencies.

As a result, France's foreign exchange reserves are now falling at approximately the same rate as they were during the weeks before the last franc devaluation, in June.

At the present rate of loss, the central bank's holdings of foreign currency would be exhausted inside of two months, although the

Bank of France still possesses large amounts of gold as well as substantial borrowing rights from other central banks and the International Monetary Fund in Washington.

Dealers ascribed the franc's latest bout of weakness to four factors:

- France's yawning trade gap, with record deficits in June and July.
- The government's inability to rebuild its foreign exchange reserves, which are still a quarter lower than when it took office despite two exchange rate adjustments that should have raised export earnings while slowing imports.
- Doubts about the Socialists' ability to carry out a tough budget strategy, introduced last week, which was intended to restore confidence in the franc.
- Nervousness that the French finance minister, Jacques Delors, may take advantage of this week's I.M.F. meeting to negotiate a new devaluation of the franc with other finance ministers in Toronto.

Though the franc was slightly stronger against the dollar than it

was a week earlier, when it traded at more than seven to the dollar, the French currency fell to 6.9625 to the dollar Friday from 6.9375 Thursday. Against the West German mark, the franc reached a record low of 2.817, compared with 2.8115 on Thursday. And against the Dutch guilder, it traded at 2.574 Friday, down from Thursday's 2.571.

Dealers said they believed the central bank intervened in the market again Friday, using up more reserves to support its ailing currency.

The latest Bank of France figures show that France's reserves of foreign currency declined from the equivalent of \$4.75 billion to \$4.3 billion in the week ended Aug. 26, while holdings of the composite European currency unit used by members of the European Monetary System to defend their currencies slipped from \$7.58 billion to \$7.49 billion.

The franc value of France's gold holdings was unchanged at the equivalent of \$24.59 billion.

It was a similar reserve hemorrhage of roughly \$75 million a week during May and early June

Oslo to Cut Krone's Value Again

OSLO — Norway, in a bid to boost its exports and spur employment, will devalue its currency by 3 percent Monday, the second devaluation in a month, the government announced Saturday.

The central bank made technical adjustments to the basket of currencies used to determine the value of the krone on Aug. 2, adding two currencies to the existing 12 and reducing the importance of the U.S. dollar. This resulted in an effective devaluation of 3 percent.

The government said Sunday that the August adjustments proved insufficient to boost exports. Finance Minister Rolf Presthus said the devaluation was part of other economic moves that will be disclosed in next month's budget.

More Welcomed
Gro Harlem Brundtland, leader of the opposition Labor Party, welcomed the devaluation as a means of curbing unemployment.

United Press International reported that August figures showed 44,000 Norwegians out of work, the highest number since World War II.

Tor Halvorsen, a trade union leader, said that the move was positive but that he regretted the government had not also taken steps to forestall the price rises that often follow a currency devaluation.

He and Mrs. Brundtland both

warned that the effect of the devaluation might be wiped out by inflation if proper measures were not taken.

The exchange rate for the krone when markets closed on Friday was 6.6450 to the dollar. No new rates were announced, but unofficial calculations put the krone at 6.8443 to the dollar.

An export council spokesman said a 3 percent devaluation was insufficient to boost exports and urged additional government measures to aid industry.

Economic analysts said the net effect of the two adjustments would be a krone devaluation of about 6 percent, which would prompt a slight rise in import prices while exporting industries, suffering from high production costs and an overvalued crown, would benefit most.

The head of the Norwegian employer's association, Paal Kraby, said he did not believe the devaluation would have any great effect on Norwegian industry's competitiveness.



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PROSPACE

U.S. Carriers Face Long-Term Struggle

By Anita Schrodt

NEW YORK — There is still no great rush of optimism about a long-term turnaround for the U.S. airline industry, despite improved financial results in the second quarter and, most likely, for the third.

John R. Zeeman, senior vice president of marketing at United Airlines, sees signs already of a return to fare wars on major routes after a six-month respite from most yield-cutting discount fares. If the U.S. economy does not pick up in the fourth quarter, Mr. Zeeman is predicting some carriers' financial weaknesses "may lead to panic pricing."

"We will struggle to break even in the second half of the year, but we will still show a record operating loss for the year higher than last year's," said George James, senior vice president of economics and finance for the Air Transport Association, representing 30 scheduled U.S. airlines, including the major airlines. The ATA airlines reported a \$421-million operating loss last year.

For the majors — American, Continental, Delta, Eastern, TWA, Pan Am, Western, USAir, Republic and Northwest — the first half brought an operating loss of \$365 million and net loss of \$524.8 million. That does not include the far-from-profitable operations of Braniff Airways, which ceased operating in mid-May. The first quarter was by far worse: in the second quarter the majors managed to report a \$125.4-million operating profit, their first in two years, and a net profit of \$18.2 million.

The major airlines began seeing their first hefty losses in the last quarter of 1979; as the losses increased, the airlines began selling assets. Pan Am sold its mid-Manhattan office building in 1980 and then, last fall, sold its Intercontinental Hotels subsidiary. Other airlines sold off aircraft. At that point, Mr. James started looking at the operating profit-loss line as the true indicator of how the airlines were doing, since the sale of assets was distorting the bottom line. Now, he said, with most of the assets sold, "We're beginning to look at another measure — operating profit after interest payments. It's an expense of doing business. The industry is paying more than \$1 billion a year now in interest."

The airlines are paying for aircraft ordered in the expansionary enthusiasm prompted by the Airline Deregulation Act of 1978. Deregulation, ATA President Paul Ignatius said, has meant that "in a relatively short period of time the industry has changed from a quasi-public utility to a market-driven, intensely competitive industry."

Braniff Airways failed to survive the change. It launched a major expansion program following deregulation, almost doubling its domestic U.S. network and opening new routes across the Atlantic and Pacific for the first time.

Its strategic error came in early 1980, when other major airlines spotted the signs of a deepening economic recession and a long-term slump in passenger growth and began retrenching. Braniff took almost a year to make the painful decision to pull back; by then, it was too late.

With Braniff's failure, Eastern took over many of Braniff's routes to Latin America — to Colombia, Argentina, Chile, Panama, Bolivia, Paraguay, Peru and Ecuador. The move into South America was part of Eastern's long-term marketing plan; without Braniff's demise, it would have taken years to receive regulatory approval to open even one route to the south. The routes began producing instant profits. In the second quarter, although it had been on the South American runs for only a month and a half, the Miami airline reported an operating profit of \$16.6 million.

One reaction this year to the erosion of airline profitability has been the establishment of broader corporate structures to permit diversification. American Airlines created AMR Corp. to invest, if necessary, in non-airline activities. "The holding company represents a certain amount of financing flexibility; the airline will still be its major subsidiary," American Chairman Albert Casey said.

There are at least two notable precedents to the holding company philosophy: UAL Inc., the parent of United Airlines, whose subsidiaries include Western Hotels and a business service company; and Trans World Corp., parent of TWA, whose other businesses include Century 21, a major real estate company.

Trends of the decade: World Aviation industries are facing particularly strong challenges in the 1980s. Wars and changes in government have boosted the shape of the military aviation and air defense industries. Civil aviation has been affected by the financial difficulties of the major airlines, but the long-range outlook seems bright. In space, the decade will usher in the widespread use of orbiting space shuttles and laboratories as well as of satellite rocket launchers — the payoff for years of research and sometimes unsuccessful tests.

FARNBOROUGH

Falklands, Mideast Spur a Trend Toward Rearmament; World Airlines Enter Industry's Most Turbulent Era

LONDON — Two major trends have emerged since air force and airline chiefs, government officials and trade delegations met in 1980 at the last Society of British Aerospace Companies air show at Farnborough. Rearmament, lately boosted by the conflicts in the Falklands and in the Middle East, has accelerated, while commercial airlines have entered the most turbulent economic era in their history, without any sign of an end to the recession yet in sight.

These trends will be reflected at the Royal Aircraft Establishment airfield, 40 miles southwest of London, where the Farnborough show is taking place. There will be a plethora of military hardware from the main suppliers in the West (despite invitations, the Soviet Union has never exhibited at this show, although it invariably does at the Paris air show, Farnborough's great rival); and an unusually large number of new airlines, all incorporating money-saving devices, such as fuel-efficient jet engines, with which the manufacturers are trying to tempt the impecunious airlines.

A few announcements of sales in either the military or civil sectors can be expected during the seven-day show. Some contracts and project go-aheads decided upon weeks before the opening will have been hoarded for a grand unveiling — but this is not really what air shows are all about.

Farnborough is a shop window for aerospace goods and, just as important, a forum where potential customers can meet with potential suppliers. What is seen and talked about on the company display stands — and in the company hospitality chalets that face the runway and that offer a superb grandstand for the daily two-and-a-half-hour flying display — will most likely not come to fruition for two to three years or more.

New aircraft or missile projects can be anything up to 10 years in gestation, and then in service for a further 15 or even 25 years. Farnborough is more a place for mulling over ideas and products than for snap decisions, a place where the aerospace industry hosts press the flesh and make themselves known to junior officers and bureaucrats from 100 or more countries, on the assumption that, in some years' time, these officials will have risen through the ranks and be in positions to order aircraft, weapons, equipment and aviation electronics.

Farnborough is also a place where more than a little industrial espionage, of the most gentle kind,

goes on. Companies photograph their rivals' products and check their latest brochures. Air attaches from East bloc countries are out in force and reporting back to their capitals on the apparent potency — or lack of it — of the latest weaponry from the West. Countries from the Third World of aerospace, particularly China, will have representatives anxious to glean ideas that they can incorporate in their emerging aircraft industries.

This is the society's 50th show — the 25th at Farnborough — and there will be plenty to see. A third exhibition hall has been erected, but all display space was let early this year, and there was a waiting list. At the last count, 135 aircraft had been entered, ranging from the supersonic Concorde airliner to the little single-seat Wallis autogyro used in the James Bond films, from two-seat military trainers to the mighty Rockwell B-1 bomber, symbol of President Reagan's rearmament program. A quarter of a million people will have passed through the gates by the end of the week.

The cost of it all to the industry is fearsome, and has produced one important casualty. McDonnell Douglas, one of the Big Three U.S. manufacturers, decided early on that the cost of being there — in its case, about \$1.75 million — was not justifiable. The company has also decided already that it will not show at the 1983 Paris salon, for the same reason.

The main interest at this show will undoubtedly be the head-on collision between aerospace groups epitomized by the arrival of two new Boeing airliners, the 757 and the 767, and the A-310 produced by the consortium of European manufacturers in Airbus Industrie.

All three aircraft are fighting for sales in a falling market for wide-body airliners, the airlines having recently been warned by their trade group, the International Air Transport Association, that they may expect revenues to fall \$3.5 billion short of the financial result needed to meet current debts and to provide new equipment this year. A \$4-billion shortfall is expected in 1983.

The smaller airlines are doing better financially than the majors, and there will be a long list of new commuter airliner projects on show, in the 20- to 60-seater range, including some interesting cross-border collaborations.

— ARTHUR REED

Huge Military Order Fuels Expansion Course in Japan

By Walter W. Miller

TOKYO — Japan's aviation industry is on an expansion course and a recent Defense Agency order for 125 new military aircraft is a major contributing factor, according to industry and foreign analysts. The industry also plans to intensify efforts to grab a larger share of the foreign civil aircraft market.

Japanese aircraft manufacturers are gearing up to meet orders following the National Defense Agency's announced plan to spend \$17 billion on new military equipment between 1983 and 1987.

Traditionally dependent on military contracts, Japanese aircraft makers are slated to receive the biggest chunk of the Defense Agency's five-year buildup budget, according to agency sources. The Defense Agency's shopping list includes 75 F-15J jet fighters and 50 P-3C anti-submarine patrol planes. The mainstay of Japan's air defense force, the F-15J and P-3C, are built in Japan under U.S. license.

A spokesman for Mitsubishi Heavy Industries Ltd., whose aircraft manufacturing division is the country's largest, would not comment on the Defense Agency's plan. However, he did say that the industry "is getting larger and larger due to military orders." He said about 90 percent of Mitsubishi's aircraft production is for the military sector.

The industry's total output for the 1981 financial year, which ended March 31, 1982, was 327.14 billion yen. Of that, the Defense Agency's slice of 79.5 percent was the largest. The industry produced 136 aircraft and 114 aircraft engines, including 59 turbojet and 33 turboprop engines.

All except one of Japan's major aircraft producers recorded two-digit increases in their sales over the 1980 financial year. Mitsubishi's total aircraft sales, for example, were 158.64 billion yen — a 20-percent increase over the previous year. Shin Meiwa Industry alone registered a drop in its sales, down to 67.76 billion yen, or 59 percent off 1980 figures.

A unique aspect of Japan's aircraft industry, which explains in

part its present structure, is that the plane manufacturers are all relatively small divisions within the country's giant machine companies. As a result, the industry is small in comparison to such giants as the Boeing and Lockheed corporations in the United States.

Sales in the aviation industry in Japan are a mere 0.14 percent of gross national product, against 1.9 percent in the United States and 1.6 percent in Britain.

This, coupled with high production costs and tiny research and development budgets, will hold the Japanese to their present course of joint production of aircraft and aircraft engines for the commercial as well as military sectors.

Weaponry: West's Systems Score in Recent Conflicts

By Arthur Reed

LONDON — Two conflicts in the Middle East and one in the South Atlantic have provided some interesting lessons for experts in air defense. One highly encouraging trend for the West that has emerged from the wars between Iran and Iraq, and Israel and the Palestine Liberation Organization, is the success of weapons systems developed in Europe and the United States against those designed and supplied by the Soviet Union.

In the light of this success, a number of Third World countries that have long relied on Soviet weaponry have made overtures to Western arms suppliers. These nations have noted with what ease the Israelis destroyed Soviet-made MiG aircraft and surface-to-air missiles operated by the Syrians in Lebanon, and the success of U.S. ground attack aircraft used by Iran against the Soviet T-72 tanks of the Iraqi Army.

India, Peru and Algeria are among countries that have recently approached the West, reasoning that there is little point in having cheaper weapons with faster delivery times from Moscow if they show up badly when the shooting begins. Still, the Middle East conflicts and that between Britain and Argentina over the Falkland Islands have shown that the side with the highest level of skill and training has a better chance of success. In the South Atlantic, the Royal Navy and Royal Air Force Harriers were up against well-designed and proven French Mirages and Etendards and U.S. A-4 Skyhawks, but skill and training carried the day.

Argentine pilots showed great bravery, but in the end the British destroyed 109 Argentine planes — 67 of them in the air. Of these, 31 were Skyhawks and 26 were Mirages.

Total "kills" by the Harriers were 27, while the British surface-to-air missiles had the following successes — Rapier, 13 aircraft; Sea Dart, eight; Blowpipe, eight; Sea Cat, six; Sea Wolf, five.

The Falklands conflict showed up vividly the vulnerability of warships to sea-skimming missiles of the Exocet variety. The British Defense Ministry has introduced a number of measures designed to counter such attacks in any future battle. The use of "chaff" — hundreds of thousands of tiny metallic strips fired into the path of incoming missiles to confuse their radar — will be increased; missile batteries able to fire from only one side of a ship are being given a 360-degree field; and the U.S.-made Phalanx gun, able to fire 3,000 rounds a minute into a missile's path, has been installed on Royal Navy through-deck carriers.

But what the British forces really missed in the South Atlantic was an early warning aircraft able to "see" over the horizon with its radar and give notice of missile attacks. This gap will not be filled until some time next year, when the first Nimrod Mark 3 aircraft go to the RAF squadrons.



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Extension of Airlines' 'Safe Harbor' Leasing Heartens U.S. Jetliner Builders

NEW YORK — "We can live with it." It was a verbal shrug-of-the-shoulders from executives at United Airlines' Chicago headquarters and from the Miami offices of Eastern Airlines, but the sigh of relief emanating from the Boeing Co., the world's largest producer of commercial jetliners, was loud and clear.

What United and Eastern can live with is the vote in July by the U.S. Congress to extend a controversial corporate tax shelter — so-called "safe harbor" leasing — through the end of next year, albeit in a somewhat more restricted form.

Of course, neither United nor Eastern nor almost any other major U.S. airline has any need these days for a tax shelter, since there is little profit to tax. But these airlines have been selling to new aircraft companies the tax benefits on new aircraft they are buying. That financial play was threatened with extinction.

What it means for Boeing is that those two airlines will not carry out threats to cancel firm orders for \$1.5 billion worth of new jetliners.

Not only were the orders crucial in terms of dollar sales, but decisions to cancel would have cut into the heart of Boeing sales of its two newest jetliners.

Eastern was talking about dropping firm orders for 27 new 757s if safe harbor leasing, first made possible through the U.S. Economic Recovery Act of 1981, was repealed.

United, which has been extending delays on delivery or possible cancellation of the last 20 of a 39-plane order for new 767s, simply because passenger levels will not support the planes; its executives said repeal of

safe harbor leasing would endanger the orders for the first 19, even though the airline has already begun taking delivery on the first of those planes.

Both airlines said that, without the financing leverage of the leasing provisions, under which they can sell the tax benefits for cash, they could not afford to go through with the initial purchase decisions.

At one time, early in its deliberations, it appeared that Congress would not only repeal the tax shelter, but make the repeal retroactive to early 1982. The U.S. scheduled airlines, represented in Washington by the Air Transport Association, said that repeal would threaten about \$7.5 billion in existing aircraft orders, another \$6.5 billion in options and \$1.5 billion in spare parts and other equipment.

In extending safe harbor leasing through the end of next year, Congress attached several restrictions to its use. However, it also attached a couple of exemptions to the restrictions, and commercial jetliner orders fall neatly into both of those exemptions.

The exemptions — on aircraft delivered and placed in service by the end of this year, if ordered or under construction between Dec. 30, 1980, and July 2, 1982; and on new aircraft put into service by the end of next year and ordered or under construction between June 25, 1981, and Feb. 20, 1982 — mean the airlines can take full advantage of the older, more liberal safe harbor leasing law.

Safe harbor leasing differs from conventional leveraged leasing in that the airline can retain actual ownership of the aircraft and list it as an asset while it sells for cash the tax credits

and depreciation allowances to another party. The congressional action will also make leveraged leasing more attractive to U.S. airlines, once safe harbor leasing expires. In 1984, leveraged leases will be permitted, for the first time, to contain fixed-price options, if the airline wants to purchase the aircraft from the lessor.

And leases can be negotiated, beginning in 1984, up to 90 days after the aircraft is put into service. Currently, leveraged leases have to be completed before the aircraft goes into service.

The cash-strapped, debt-ridden U.S. airline industry has been far from eager to place new orders for jetliners, particularly this year.

As a result, the nation's three major aircraft manufacturers — Boeing, McDonnell Douglas Corp. and Lockheed Corp. — spent a lot of time in Washington this summer lobbying on such issues as safe harbor leasing.

Foreign orders, which account for about 60 percent of the manufacturers' commercial orders, have also dried up, and one major thrust of Boeing's lobbying has been to push for increased spending and loan guarantee levels from the U.S. Export-Import Bank to help Boeing's foreign customers finance their purchases.

Congress will be considering a temporary appropriations bill for the bank this month, it appears that Boeing's efforts may have paid off, since there has been a move to boost the spending levels. The bank, in the meantime, is still financing aircraft on a selective basis, only where foreign competition (from Europe's Airbus Industrie) exists for a specific aircraft market.

Even Lockheed Corp., which announced late last year that it would focus strictly on military business and shut down its L-1011 TriStar line, its only commercial aircraft on the market, at the end of 1983, has been an active player on the Washington stage.

Lockheed and Boeing battled for orders for a new military transport, with Lockheed offering to build an updated version of its C-5 Galaxy Starliner and Boeing proposing to modify its commercial 747 jet transport for the job. Boeing lost that round; Congress appropriated the first funding of what will be a \$10-billion program to build 50 C-5s through the rest of the decade, with a consolation prize to Boeing in the form of orders for three military versions of the 747.

Lockheed has removed itself from the commercial aircraft business before. It produced no commercial planes from 1962, when it retooled its last Electric 1140, the military L-1011 in 1968, although it worked furiously, in the meantime, on the American program for a supersonic commercial airliner.

This time, however, Lockheed has "no plans to design and create another commercial aircraft" after the last L-1011 comes off the production line late next year, Lockheed Chairman Roy Anderson said.

The company's Lockheed-California subsidiary, which builds the TriStar, has 12 more firm orders to be completed and is going to build five more "white tails," with no customers lined up, despite the fact that Pan American World Airways is hoping to sell off its entire fleet of L-1011-500s, the long-range version, and that Eastern has tried periodically to

get rid of several of its Dash 500s. Lockheed's final L-1011s will be the long-range Dash 500s.

Lockheed-California is already devoting more attention to the military aircraft it produces — the P-3 Orion antisubmarine patrol plane, a version of the commercial Electra design; the new TR-1 single-engine reconnaissance jet; and modifications on the Navy's S-3A Viking, a carrier-based twin-engine similar to the Orion. There are some talks about reopening the Viking production line, which closed in 1978 after 173 deliveries.

When the company turns out its last TriStar, it will have built 250 of them. It estimates total losses on the program at \$2.5 billion.

The true picture of the bleak state of the aircraft manufacturing industry comes from a look at Boeing's orders, which signal some hard times ahead for that Seattle company. Boeing Commercial Aircraft, the subsidiary in Seattle, produces a complete line of commercial jets — the 727, 737, 747 and the new 757 and 767 — ranging in price from \$15 million to \$90 million per plane.

This year, through July, Boeing received orders for 46 new aircraft, including five for military versions of the old 707. There were only two orders for the new 757 and none for the 767. Last year, during the same period, Boeing announced 142 new orders.

There were cancellations of 29 previously firm orders in the first seven months. American scrapped its order for 15 new 757s; Air France canceled on five 737s; Mexicana Airlines backed out on six 737s; Transamerica Airlines, a charter airline, dropped two jumbo

747s; and there were other cancellations of single 737 orders.

The financial impact was clear at midyear. Boeing's cash and short-term investments totaled \$214 million, down from \$2.3 billion at the end of last year, and the company's first-quarter earnings dropped from \$284 million the year before to \$132 million.

Boeing's employment at the end of this year will be down about 10,000 workers in Seattle from the 1969-1971 slump, when employment dropped by 90,000 company-wide, including 70,000 Seattle workers, to 38,000 and the sign went up on the outskirts of the city: "Will the last person leaving Seattle please turn out the lights?"

Although the year is turning out to be less than satisfactory for the manufacturers in terms of orders and profits, 1982 will mark the first time since the introduction of the wide-body 747s, DC-10s and L-1011s more than a decade ago that brand-new commercial jetliners will roll off the U.S. production line.

Boeing is delivering its first new 200-seat 757s to Eastern and its first new 767s to United, American, Delta, TWA, Air Canada, Ansett in Australia and China Airlines. Boeing expects to deliver 25 of the new 767s by the end of the year.

Boeing is hanging on through the current slump in commercial jetliner orders; McDonnell Douglas is doing the same and relying on military orders to keep the DC-10 line going; and Lockheed has thrown in the commercial towel.

—ANITA SCHRODT

Engine Makers Edge Toward Links

LONDON — Competition between the three jet engine manufacturing giants of the West continues to be bitter, but the staggering sums of money needed to develop new power plants may force them to work together in the future.

Each has its own massive turbofan — General Electric the CF-6, Pratt and Whitney the JT-9 and Rolls-Royce the RB-211 — powering various versions of the current generation of wide-body airliners.

These engines started life 10 years or more ago with thrust ratings of about 40,000 pounds, but each has been "stretched" to give up to 55,000 pounds, while the amount of fuel they consume, per pound of thrust, has declined. Now the companies are competing with engines for the next generation of 150-seater airliners. So far each has taken a different approach. Rolls has developed the 535, a reduced-power version of the 211; GE, in partnership with Snecma, the French engine manufacturer, is producing the CFM-56; Pratt and Whitney is making a brand-new engine, the 2037.

Pratt and Whitney claims that its competitors are offering old technology while it concentrates on the new. Each contends hotly disputes the others' fuel consumption figures. Each privately wonders how much further it

can go with the tremendous development costs involved — Pratt and Whitney's 2037 will have cost about \$1 billion by the time it is certified.

Recently the competition has centered on which engine will power the Boeing 757 — one of the new airliners that will be appearing at the Farnborough show. Rolls scooped up British Airways and Eastern Airlines, but Pratt and Whitney came back with one of the biggest engine sales ever — for six 757s for the leading U.S. airline, Delta. GE is not really in this market with its CFM-56, but it has been having steady success with that engine in refitting outdated DC-8s, and in Boeing 707 tankers for the U.S. Air Force. The CFM-56 is also being chosen by airlines for the latest version of the Boeing 737, the 300.

Apart from the money involved, the lead time required to develop a big new modern jet engine is lengthy, and costly in terms of manpower and brainpower. Pratt and Whitney's 2037 began life in 1971 and at one point became the JT-10D, for which Rolls-Royce did some collaborative work.

Over the years the engine's thrust grew from 23,000 pounds to its current 37,000, and Pratt and Whitney claims that in its present form its fuel consumption will be 30-percent below that of first-generation turbofans and 10-percent lower than that of Rolls' RB-211-535C, with

which it competes (the figure is vehemently contested by the British company).

Pratt and Whitney is collaborating in 2037 development and funding with the West German engine firm MTU and with Italy's Fiat — an indication of the way future big engine programs may go. It is generally accepted that no one company will be able to afford the colossal sums needed, and that international cooperation will be commonplace — even between the current rivals.

Indeed, Rolls is talking to both major U.S. companies about possible joint ventures, and is involved with three Japanese companies in the development of the RJ-500, an engine that could power airliners in the 150-seat bracket.

Meanwhile, Rolls plans an even more advanced version of its new 211-535C — the 211-535E4, due to go into service on 757s in 1984. Rolls claims it will reduce fuel consumption by a further 10 percent, to give the 757 a fuel consumption improvement of 45 percent over the generation of engines that preceded it.

In the military sector, where tight fuel consumption is not considered as vital and where power is all-important, the race is on to improve existing jets and perfect an engine that could give a future generation of fighters vertical takeoff and supersonic flight capability.

—ARTHUR REED

British Industry Looks for Long-Term Projects

LONDON — Britain's aircraft industry, with orders in hand worth well over \$7 billion, is well-placed in the short and medium term, but would welcome more sales contracts and further projects for the longer term.

The industry now pivots around British Aerospace, recently denationalized under Prime Minister Margaret Thatcher's policies for "privatizing" state industries. Incorporated within BAE are most of the companies that developed aviation in Britain.

BAE employs 80,000 workers in factories throughout the country, and in 1981 sold \$3 billion worth of aerospace goods — including military and civil aircraft, missiles, and space equipment — reported orders in hand worth \$6.8 billion and made a profit before taxation of \$124 million.

In the civilian sector its main product lines are the 146 aircraft, a four-jet 70/100-seater with a quiet, short take-off performance; the Jetstream 31 20-seat commuter; the 125 10-seat executive jet; the rugged 45-seat twin turboprop 748, and the wings for the two European Airbus in production, the 300-seat A-300, and the 200-seat A-310.

The Airbus, the 125 and the 748 have all been on the market for some time and continue to sell well, but the two new products, the 146 and the Jetstream 31, are in a sales doldrum for the moment and could do with a boost in orders. Jetstream has recently completed a European sales tour, and the 146 is due to leave on a similar mission to the Far East and India shortly after the Farnborough show ends.

BAE is also working closely with the aircraft industry of Romania, which is producing British 1-11 90-seat airliners under license, and continues to support past projects such as the Concorde superjet and the Trident Airliner, which are still in service although the assembly lines are closed.

In the military sector, the biggest BAE project is the Tornado, an advanced supersonic bomber with a variable-geometry wing. Developed in partnership with West Germany and Italy over a lengthy period, it is just going into squadron service with the air forces of the partner countries.

Britain is ordering the Tornado in an air defense version, a prototype of which will be displayed at the Farnborough show for the first time along with a former VC-10 airliner that has been converted into a tanker to support it.

Also on the BAE flight-line at Farnborough will be examples of its other military programs, including the Jaguar bomber, made in cooperation with France but which is now coming up for replacement; a prototype early-warning version of the Nimrod sea water service with the Royal Air Force next year; and the Sea Harrier, the shipborne version of the vertical takeoff Harrier "Jumpjet."

BAE has just announced an important follow-up project to the Tornado in conjunction with its West German and Italian partners. This is the ACA, the Agile Combat Aircraft, a Mach 2 (twice the speed of sound) fighter with ground-attack design. ACA development and production will keep several British factories busy until the end of the century.

Westland, in the English west country, and Short Brothers of Belfast are Britain's two largest aircraft manufacturers after BAE. The former will have four helicopters at Farnborough, three versions of the Lynx — including a civil type — and a larger Sea King. It is also displaying plans for the EH101, which it intends to develop with Italy, and for a new version of its existing Lynx-3 with a specific anti-tank role.

Short Brothers has two commuter airliners, the 36-place 360 and the smaller 330, which are being encouraged sales around the world. The manufacturer also makes a range of missiles and carries out airframe work for a number of aerospace companies abroad, including Boeing and Lockheed in the United States.

Outside the British Big Three aircraft makers, there is a range of smaller companies. Pilatus, a Swiss firm with a factory on the Isle of Wight off the English south coast, produces British-designed aircraft with a largely local work force. Pilatus took over British-Norman, developer of the Islander and Trislander commuter airliners.

Pilatus B-N has an agreement with the Romanian aircraft industry under which the Islander is made in Romania and then flown back to England for fitting out and delivery to customers. The company recently announced that the Trislander is to be made under license, from kits of parts produced in Britain, by a company based near Miami.

—ARTHUR REED

AFTI F-16 Could Change Fighter Technology

By Richard Tuttle

WASHINGTON — If the flying displays at Farnborough this year are anything like those of the past, they will be impressive, but the technology used in a new U.S. military jet just beginning its flight test program in the California desert promises to make future Farnboroughs even more exciting.

The aircraft, although externally similar to the F-16 fighter now flown by the U.S. Air Force and the air forces of Belgium, the Netherlands, Norway, Denmark, Israel and Egypt, features new internal systems that will allow it to perform seemingly impossible maneuvers — all with an eye to improving combat effectiveness.

Among other things, the plane, called the AFTI (for Advanced Fighter Technology Integration) F-16, will be able to turn without banking or rolling, fly up or down without raising or lowering its nose, and move sideways while its nose continues to point forward.

If the three-year flight test program at Edwards Air Force Base in California is successful, and the

AFTI F-16's technologies are widely adopted, today's "conventional" maneuvers may be a thing of the past.

The AFTI F-16 is one of a number of projects underway in the American aerospace industry that hold potential for the future.

High on the list, but difficult to get a firm handle on because of strict security, is the "Stealth" bomber program. The idea is to develop a bomber that will be virtually invisible to Russian radar and other detection systems. Recent advances in a variety of fields, including materials from which aircraft are constructed and radar-proofing techniques, put this goal within relatively easy grasp.

Leading the effort for the U.S. Air Force is Northrop Corp. — not a traditional builder of bombers, but a company with experience in a number of areas, including materials and electronic warfare. Having that experience under one roof apparently also helps keep the security lid on.

The lid has been on for years at Lockheed's "Skunk Works" in

Burbank, California, and it is not likely to come off soon, especially since Lockheed also is working on Stealth projects — including a fighter and a cruise missile. The latter may look like a small, pilotless plane developed by Lockheed in the 1960s for reconnaissance over politically sensitive areas, such as China. Fast and difficult to detect, it was intended to do its job in complete secrecy.

The Stealth fighter and the cruise missile reportedly have been heavily influenced by the technology used in Lockheed's triple-sonic SR-71 reconnaissance plane. The SR-71, which has the same basic mission as Lockheed's U-2 — to gather information — first flew in the early 1960s.

A direct descendant of the U-2, the TR-1, is slated to make its first appearance at Farnborough this year. The SR-71 was a hit of the 1974 Farnborough show, where it landed after flying from New York to London in one hour and 56 minutes. The same plane a few days later flew from London to Los Angeles in three hours and 47 minutes.

Not nearly as fast, but much larger, is Lockheed's C-5 Galaxy transport, which has been challenged for the military airlift mission in the U.S. Congress by Boeing's 747. At stake have been not only big business for Lockheed or Boeing, but also the U.S. ability to move adequate numbers of troops and equipment quickly to distant areas such as the Middle East. One study says the United States now is dangerously short of aircraft for such a mission.

In the long run, the airlift role will be filled more efficiently by a new plane, and McDonnell Douglas hopes that plane will be its own C-17. The company was chosen winner of a competition to build

this new transport, but time and money problems have conspired against it.

In somewhat the same category has been another McDonnell Douglas aircraft with potentially significant impact, the VTX trainer for the U.S. Navy. Collaborating with McDonnell Douglas is British Aerospace, whose influence is obvious: the VTX is British Aerospace's Hawk trainer modified for operations from aircraft carriers. McDonnell Douglas is the prime contractor because "it's just practical politics," said an industry observer. "A foreign contractor could never get off square one" in a bid to head a major project for the U.S. government.

But all has not been clear sailing for McDonnell Douglas-British Aerospace. Congress was leary of the Navy's decision to move ahead at this stage with only one VTX entry (several were in the competition), and has slowed the whole program. The Navy had, in fact, planned all along to narrow the field of competitors to two, and then eventually to pick a winner, but money problems forced it to skip the two-competitor phase.

The Navy is anxious to get on with the program because it promises to train pilots better and more cheaply.

Meanwhile, a second McDonnell Douglas-U.S. Navy project — the F/A-18 Hornet — is proceeding with the approval of the U.S. Congress despite vocal critics who claim it costs too much and will not be able to perform the missions — fighter and attack — planned for it.

Pilots who fly the Hornet at Naval Air Station Lemoore in California, the main training base for the aircraft, say the critics are wrong, at least in terms of performance.

One of the capabilities demonstrated, the industry involved would become a regular paying customer for the shuttle system.

The first joint venture shuttle flew on the fourth Columbia flight last summer. It involves a large aerospace company familiar with space operations, in partnership with a major pharmaceutical company, to produce drugs several hundred times purer in the micro-gravity of space than is possible in the gravity pull of the Earth's surface. The drugs can also be produced in space.

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Lack of a commitment to a larger shuttle fleet or even a fifth orbiter has caused concern among potential users about the availability of sufficient shuttle capacity for the next 20 years. Five years ago, critics scoffed at the slim prospects for shuttle users, but capacity is now sold out through 1985.

The big problem remains reducing the time for recycling to get the required 12 flights per year per orbiter. Delays in launching the shuttle test stage and the longer than anticipated turnaround times have already caused a substantial user fee increase.

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Most industry sources on both sides of the Atlantic agree that Ariane has been picking up contracts because of attractive financing terms and lower prices — Delta's rates, for example, vary between \$26 million and \$32 million, which compares to an estimated \$25 million to \$30 million for a European launch.

But U.S. industry sources also noted that French banks offer rates below 10 percent, while the U.S. Export-Import Bank rates are around 12 percent or more.

A senior U.S. executive of a leading communications company, which has contracted for both NASA and Ariane space launches, recently commented: "We wanted to hedge, since there can always be failures, but it is true that the Ariane space boys are aggressive, they have these cost advantages — it is all a bit reminiscent of the European success with Airbus."

Had the Americans lost, it would have meant a significant winding down of their aerospace presence in Europe. Their victory, however, ensures that they are deeply embedded in the area at least until the turn of the century, when it will be the turn of the F-16 to be replaced.

The crucial importance of that sale-of-the-century decision can be seen in the fact that work on the F-16 in Europe, which was an important factor in the deal, involves 400 companies as subcontractors and provides jobs for 6,000 workers. The four European purchasing countries make components for the main F-16 assembly line, which is at Fort Worth, Texas, and there are also assembly lines in the Netherlands and Belgium.

Since its collaboration with Britain on the Jaguar, France has stayed largely aloof from international military projects and has concentrated on developing its own line of aircraft and missiles, including the Super Etendard naval bomber, which, carrying France's Exocet missile, was used by Argentina to deal gr. damage to the British fleet in the Falkland Islands.

A Super Etendard is to be at Farnborough as the main versions of the Mirage fighter are the F-1, 2000, 2000B and advanced 4 (The French have been competing with Mirages in world markets against the British who were offering the Jaguar that the made together).

—ARTHUR REED

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Europe Reduces Military Dependence on U.S.

LONDON — Reflecting the trend in the civilian sector, European military aerospace is gradually building up its design, development and production capability, with the result that the air and naval forces of Europe are becoming less dependent upon the United States for aircraft and missiles.

Many of the fruits of this progress will be on view at Farnborough. They include the Alpha jet, which France and West Germany produced in cooperation; the Jaguar bomber (Britain and France); the Tornado bomber (Britain, West Germany and Italy); and the Gazelle, Lynx and Puma family of helicopters (Britain and France).

These are all projects that are well down the development road; the talk behind the scenes at Farnborough will center on which European nations will collaborate to produce the next generation of military machines.

One significant step has been taken: The show opens with an agreement between British Aerospace, Messerschmitt-Bölkow-Blom of West Germany and Aeritalia of Italy to design and develop a new light fighter/ground-attack aircraft, the ACA, up to prototype stage.

These are the partners that in the last 13 years have been developing the Tornado, and they plan to utilize the same industrial base, through Panavia, to make the ACA. The Europeans have discovered to their cost that a three-nation project is a lengthy and expensive affair — although it can produce an excellent

new project, so that it will be kept within cost and enter service without delay.

ACA stands for Agile Combat Aircraft. It is planned to have the most advanced electronics, and an airframe that will include a high proportion of composite materials. It will incorporate fly-by-wire, in which the rods and cables normally employed to transfer movements of the control column and rudder pedals to the moving surfaces of wings and tail are replaced by computer-controlled electronic signals.

British Aerospace, at its factory at Watlington in northwest England, has test-flown a Jaguar fitted with fly-by-wire.

Despite the ACA project, U.S. aerospace has hardly given up its hopes of satisfying European fighter specifications. The United States has made full use of the years of protracted negotiations in Europe to push its advanced aircraft types, particularly developed versions of the General Dynamics F-16, the mainstay interceptor for the Dutch, Belgian, Danish and Norwegian air forces.

The F-16 broke into Europe during the 1970s in what was known at the time as the aerospace sale of the century. The Europeans were looking for a successor to their Lockheed F-104 Starfighters, and a furious marketing battle was joined between the U.S. and European industries; the latter offered a number of options, including Jaguars and French Mi-

gats; and there were other cancellations of single 737 orders.

The financial impact was clear at midyear. Boeing's cash and short-term investments totaled \$214 million, down from \$2.3 billion at the end of last year, and the company's first-quarter earnings dropped from \$284 million the year before to \$132 million.

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—ANITA SCHRODT

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M-1's Rise Isn't Seen As Threat

By Thomas J. Luck

NEW YORK — The basic U.S. money supply has grown four times in the past five weeks, but credit market analysts see little cause for alarm.

U.S. CREDIT MARKET

The announcement Friday by the Federal Reserve of a \$1.5-billion increase in the M-1 money supply, to \$456.3 billion for the week ended Aug. 25, caused little change in the credit markets. Interest rates rose after the late-afternoon announcement but still ended the day at lower levels than on Thursday.

The \$1.5-billion increase was slightly above the maximum weekly expansion under the Fed's target. But combined with the figures of the preceding four weeks, it resulted in a total five-week increase of \$5.9 billion, which was just within the Fed's annual growth target.

Economists said an unusual factor affecting the expansion of the M-1 measure was the heavy volume of trading on the stock market during the reporting week. They said many investors transferred money to their checking accounts from other forms of bank deposits to make stock transactions. M-1 comprises currency, checking accounts and traveler's checks.

While the money supply increase was slightly higher than expected by many analysts, it came as no great surprise and was not regarded as likely to have an impact on the course of interest rates. "It confirms the earlier impression that the Fed has gone as far as it can go in loosening monetary policy," said Thomas Thomson, chief economist at Crocker National Bank in San Francisco. He added that the central bank would now be "singling" in injecting money into the banking system in the last five weeks and predicted that this week's money supply report would show little or no growth.

The Fed also reported Friday that the volume of loans by large banks to business and industry during the reporting week had fallen \$760 million from the prior week, to \$210.3 billion. That loan volume, moreover, was \$2.1 billion below the level four weeks earlier, reflecting a continuing effort to liquidate inventories and reduce capital spending at many companies.

Some economists said the reduced business borrowing, a reminder that the recession had not ended, might result in lower interest rates on home mortgages, auto loans and other forms of consumer loans.

"It means that business credit demands won't be putting upward pressure on interest rates," said Maury Harris, vice president and economist for Paine, Webber, Jackson & Curtis, the brokerage firm. "And to the extent that there isn't business demand, there is a glimmer of hope for the consumer, because the banks may get hungry."

U.S. Consumer Rates

For Week Ended Sept. 3

Passbook Savings	5.50%
"All Savers" Certificates	8.15%
6-Month Savings Certificates	10.12%
Two-Year Certificates	10.24%
Money Market Funds	9.5%
Home Mortgage	17.22%
FHLB average	

On Wall Street: Gambles, Pedometers and Chest Pains

By N.R. Kleinfield

NEW YORK — It has often been likened to a soap opera. Others prefer to draw their analogies with a casino. In the past few weeks, people tended to think of it as heaven. They poured their money in and, like figures in a Biblical parable, found themselves enriched.

Over the most recent three-week stretch, a cannonade of trades has blasted the stock market into the biggest buying binge in the history of the New York Stock Exchange.

It was not a uniformly happy tale. A man named Philip Hefner, a cotton futures trader and president of the New York Cotton Exchange, dropped \$60,000 betting that the stock market would tumble, a bet that may have contributed to his taking his life.

What did it all mean? A quirky stampede by market sheep? A harbinger of rozier times? The future of the market is unfathomable. History suggests that it tends to turn up some months before the economy rebounds, though sometimes the economy does not comply. But the conviction of many on Wall Street seemed to be that this is a for-real bull market that will last for months. As one seer said: "I think there's still a lot of cash around anxious for a place to park. I don't think this is a flash in the pan."

A lot of people have been caught up in the swirl of events. Some came away quite a bit richer and some quite a bit poorer, but all of them came away with the strong sense that they were touched by history.

Retail Broker

"You want to know what it's been like?" Harold Rubin said. "Start with chest pains."

Mr. Rubin's office was an orderly sanctuary: black carpeting, plush chairs, a wooden desk with a computer terminal humming. Mr. Rubin is a retail broker for E.F. Hutton; he is routinely one of its big hitters.

"These two weeks have been the heaviest buying period for me ever," Mr. Rubin said, explaining the chest pains. "I've been one of the fortunate few who have kept clients in cash the last couple of years, based on a very simplistic view: that you can get 16 or 17 percent in money-market funds risk-free. In the last two weeks, I've been trying to bring client positions down to as little cash as they can live with and



Brokers watch price monitors on the New York Stock Exchange floor.

put it into the market. So I've spent virtually all my time buying stocks and buying stocks."

He stifled a yawn. "It really has gotten to me. I feel under enormous pressure. I'm basically an emotionally hypersensitive person. I'm taking a vacation this next week and going to New Hampshire. It's easily postponable but I welcome the week away from here. I'm beat at the end of the day. No balance."

The money has been a nice balm. "It's been a bad year for the brokerage community," Mr. Rubin said. "My own year has been weak. This month has been a good one. In fact, it's been the best month I've ever had."

He shook his head and chuckled. "It's amazing the idiocy of how you can be so negative two weeks ago and so exhilarated now."

Customer

Linda Islowitz has always loved the market. Loved the thrill of seeing the stock bob up and down. Loved the treasure-hunt excitement of it all. The last couple of years, with the market doing as she steered clear, sticking with bonds.

But then the market went berserk and she succumbed again. Miss Islowitz got out her purse. She called her Paine Webber broker. "I've taken a shot at the over-the-counter market, the penny stocks," she said. "I just felt I had to take a gamble. I've been waiting for the right

time and this looked like the right time."

She bought four stocks, but forgot the names. How did she pick them?

"They just hit me. I was looking at the stocks in the paper. Some nights when I can't sleep, I look at the tables. And I save the papers. I compare the prices and see how fast they go up. These have been itching me. I had to have them."

Was it just the roar of the market that yanked her in?

"I also had just been robbed and I decided to take whatever I had left and invest it before they took everything."

Miss Islowitz does not work; she is independently wealthy. Has the market been kind to her?

"No. They owe me a lot of money. I've bought stocks that they told me were a sure bet. They said, 'Linda take it, it's a sure bet.' There was this one stock, Electric Equipment or something. I bought it for 10 1/2 a share. When I got a quarter, I didn't want to know about it. I bought one stock and they told me later to use it as wallpaper."

Two-Dollar Broker

David Shields disposed of some orders over at Post 12 on the Big Board's trading floor, committed some hurried scribbles to paper and made a blazing-fast phone call. A lean man with an angular jaw, he is a two-dollar broker. He owns a seat on the exchange but does not work for a particu-

lar brokerage house. Instead, he executes orders for retail brokers when they need help on the floor.

Many people tasted the sweetness of the market's fruits during the big spree, but few feasted as well as the two-dollar brokers, who got the name back when the commission was \$2 per 100 shares. Now, with negotiated fees, the commission varies.

"On some days, my volume doubled or tripled," he said. "It was just coming from everywhere. I was laying off orders on specialists and other brokers to get them done. Instead of standing around and spending time in one stock, I'd be cruising five stocks. There was a lot more moving around. People have put on pedometers down here. They talk about doing 10 miles on big days. I don't know, but I surely have been walking a lot."

Were these his best weeks this year?

"Oh yeah," he answered. "Two best weeks this century. Two best weeks since 1792. Since the Buttonwood Tree."

Money Manager

Kenneth Rolland, an executive vice president of Chemical Bank, minds \$11 billion in institutional money and trust funds. During the first six or seven days of the market's move, he guesses he shovelled some \$500 million into the stock market and perhaps another \$300 million into bonds. "We bought a fair amount of MCA, Arizona Public Service, Syntex, Sears, some IBM," he said.

All the buying reduced the cash position of the funds to about 15 percent, as low as Rolland plans to go; it had been up about 40 percent in the spring. Now, he is back to dumping a mere \$25 million or so a month into the market.

He looks for some retreat in prices now, but continued long-term growth. "Markets dance to their own tunes. Short-term, they can look a little funny to people. But long-term, they're pretty good prognosticators."

OPEC Aides Are Said To Back a Price Rise

BAHRAIN — OPEC experts, meeting after Saudi Arabia warned that high-quality oil prices had to rise quickly if the kingdom was to continue defending the group's base tariff, have backed an increase of up to \$2.30 a barrel, the Middle East Economic Survey said Sunday.

The Nicosia-based newsletter said a majority of the OPEC expert committee thought the price of extra-light African crudes should rise to between \$37 and \$37.80 a barrel.

The committee, which met last week in Vienna, will recommend to OPEC's market monitoring committee in Abu Dhabi on Sept. 20 that the differential, the amount added to the base price to allow for higher quality, should be increased on African crudes by between \$1.50 and \$2.30 from the present \$1.50.

Any change would have to be approved by a full ministerial meeting of all 13 OPEC members. The newsletter said the experts

group was formed after the Saudi oil minister, Sheikh Ahmed Zaki Yamani, warned that OPEC had to act quickly on differentials if it wanted the kingdom to continue propping up OPEC's \$34 a barrel base tariff.

Saudi Arabia, whose production the newsletter said fell to a 10-year low of below 5.5 million barrels a day last month, pressed unsuccessfully for higher African differentials at an OPEC meeting in Vienna in July. That session ended in disarray and without producing an agreement.

The newsletter said that such Gulf producers as Saudi Arabia and Kuwait were incensed about the competitive disadvantage of their oils against African crudes because of differentials.

It added that the African producers — Nigeria, Libya and Algeria — had reservations about increased differentials and refused to join in recommending specific figures. But it said they agreed in principle that adjustments in OPEC prices would be in order.

The newsletter said the experts agreed that Gulf producers would raise differentials by the traditional one-third of any African increases.

Indonesia indicated it intended to cut its differential on Minas crude by 44 cents a barrel and Ecuador said it wanted to reduce its differential by \$1 a barrel.

McDonald's Corp. Plans Restaurants In Yugoslavia

CHICAGO — McDonald's Corp., the hamburger chain, is looking for markets in Eastern Europe and already has plans for restaurants in Yugoslavia.

McDonald's chairman, Fred L. Turner, said Friday that Yugoslavia held the best prospects for success because it has a "strong middle class and infrastructure on the supply side."

Mr. Turner said the company, based in Oak Brook, Ill., is growing Idaho potatoes in Poland on an experimental basis for possible export to the Netherlands. "It is not a significant quantity of potatoes, but ultimately to get into Eastern Europe we'll need barter for exchange," he said.

A year ago, McDonald's had an agreement with Poland in which a McDonald's restaurant would be one-third owned by the Polish government, one-third by a proprietor and one-third by McDonald's, but the plans were postponed because of the political situation. Discussions with Hungary and East Germany also have taken place, Mr. Turner said.

Kredietux Indices

Index	100 May 1, 1977	100
Industrial, U.S.	100.00	100.00
Int'l Industrial	100.00	100.00
Consumer S.	100.00	100.00
U.S.	100.00	100.00
Germany	100.00	100.00
Japan	100.00	100.00
France	100.00	100.00
Italy	100.00	100.00
UK	100.00	100.00
Spain	100.00	100.00
Portugal	100.00	100.00
Belgium	100.00	100.00
Netherlands	100.00	100.00
Sweden	100.00	100.00
Denmark	100.00	100.00
Finland	100.00	100.00
Norway	100.00	100.00
Switzerland	100.00	100.00
Austria	100.00	100.00
Italy	100.00	100.00
France	100.00	100.00
Germany	100.00	100.00
Japan	100.00	100.00
UK	100.00	100.00
Spain	100.00	100.00
Portugal	100.00	100.00
Belgium	100.00	100.00
Netherlands	100.00	100.00
Sweden	100.00	100.00
Denmark	100.00	100.00
Finland	100.00	100.00
Norway	100.00	100.00
Switzerland	100.00	100.00
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490	12.50-15.50	20.00-23.00	27.00-31.00
510	—	15.00-19.00	22.00-26.00
530	—	—	21.00-24.00

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Henry Ford 2d at 65: A Sort of Retirement

By John Holusha

DETROIT — The man with the most famous name in U.S. business became 65 years old Saturday, but unlike many other executives reaching that age, he is not likely to fade quietly from the scene.

Henry Ford 2d, who was chief executive of the auto company bearing his name for 34 years, said, "I'm definitely going to remain on the board. And I'm going to remain chairman of the finance committee, at least until the next annual meeting, to see if I can get re-elected."

When Mr. Ford relinquished the chairmanship to Philip Caldwell two and a half years ago, he said: "I believe there are many ways I can be of service before I retire finally at the age of 65."

Last week he said: "Although I've been retired as chairman, I've still been on the payroll. Now, when I become 65 I assume I'll be off the payroll. I haven't worked it all out yet. I've got to do that beginning early next week."

It can be safely assumed that Mr. Ford's wishes in the matter will be respected. For one thing, he and his family still control 40 percent of the stock of the company, which had worldwide sales of \$38 billion in 1981 despite the slump in auto sales. And, as he was prone to

point out during his tenure as chairman, his name is still over the door.

Given Mr. Ford's penchant for running through senior executives, auto industry observers have been alert for signs that he is reasserting control over the company.

Among Mr. Ford's potential successors, Arjay Miller left in 1968, to be replaced by Simon E. Knudsen, who lasted just 19 months, to be replaced by Lee A. Iacocca, who was abruptly dismissed in 1979, to be replaced by Mr. Caldwell.

So far, however, there have been few signs of a retaking of the reins. While retaining his positions on the board and finance committee, he has shown little interest in day-to-day details.

In a recent interview with a trade journal, John J. Telnack, Ford's chief designer, was asked whether Mr. Ford still influences the styling of the company's cars. Mr. Telnack said, "He still looks but, believe it or not, he has very little influence — he doesn't try to sway us."

Despite its size and diversity (the aerospace division is a leading maker of communications satellites) Ford reported losses of more than \$1 billion in both 1980 and 1981 and is expected to lose between \$200 million and \$300 million this year.



Henry Ford 2d

Ford's share of the U.S. auto market has shrunk from 23.6 percent in 1978 to 16.6 percent last year, largely because it had few of the smaller, more fuel-efficient car models favored by buyers. Analysts have attributed much of the blame for this lack of up-to-date products to decisions made by Mr. Ford in the late 1970s.

However, according to David Lewis, a professor of business history at the University of Michigan, Mr. Ford is also responsible for the company's current viability. "He was the one that took the major interest in developing business overseas when some others were obsessed with the American market," Mr. Lewis said. "Ford owes him a lot for that."

U.S. Softens Its Stand on Debt Woes

(Continued from Page 7)

the World Bank. The best hope of the down and out, the president said last week, was the stimulus from a stronger U.S. economy combined with the "magic of the marketplace."

Now the president's key economic advisers, such as Mr. Regan and Treasury Undersecretary Beryl Sprinkel, are conceding openly that both lending institutions, the cornerstones of the post-war economic system, should be strengthened.

Mr. Regan announced last week that the United States favors a

"modest" increase in the resources of the fund but one that would be far short of the doubling favored by most other countries. Mr. Regan also spoke of reasserting the U.S. commitment to the World Bank, the 144-nation sister institution.

Despite budgetary restraints and congressional skepticism, he noted, the administration had won congressional authorization for the full \$3.24 billion that the Carter administration had committed as the U.S. contribution to the World Bank's special aid program for the poorest countries.

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Arab Bank for Investment and Foreign Trade (ARBIT), Abu Dhabi

Despite Strong Business, Litigation Forces Manville to File for Reorganization

Attention: Manville Corporation Shareholders, Employees, Customers, Suppliers and Creditors

On Thursday, August 26, Manville Corporation and its principal American and Canadian affiliates filed voluntarily for reorganization under Chapter 11 of the U.S. bankruptcy laws.

In the following interview, John A. McKinney, Manville's Chief Executive, answers questions about the background of this startling development:

Q. Mr. McKinney, this announcement was a surprise. What's wrong with Manville's operations?

A. Nothing is wrong with our businesses. Filing Chapter 11 does not mean that the Company is going out of business or that its assets will be liquidated. Thousands of asbestos-health lawsuits are the problem! We're the American and world leader in a number of markets, mostly related to construction. During the current recession our sales have held up well and we've operated at better than break even (if you exclude litigation expenses). We've slimmed down too, having eliminated more than 1500 salaried jobs in the last six months. We'll continue to generate substantial cash flow. Our Chapter 11 lawyers tell me Manville has stronger businesses and cash flow than any other big company that's ever filed.

Q. Your businesses are in good shape, but you filed under Chapter 11? Why?

A. We're overwhelmed by 16,500 lawsuits related to the health effects of asbestos, with many more projected. The U.S. government has refused to admit its responsibility to its shipyard workers. Congress has failed to act to provide compensation for claimants. Chapter 11 is the only orderly way for the Company to handle the litigation and treat everybody fairly. You may have read recently that another publicly held asbestos manufacturer has taken the same step.

Q. Could you have avoided Chapter 11?

A. No. To avoid Chapter 11, we would have had to strangle the Company slowly, by deferring maintenance and postponing capital expenditures. We would also have had to cannibalize our good businesses just to keep going. If recent trends had continued we would have had to mortgage our U.S. plants and properties and new credit would be most difficult and expensive to obtain. This is no way to go forward. Chapter 11 avoids these problems and preserves our operations.

Q. Will Manville go out of business?

A. No. Our businesses will keep operating, very smoothly, we believe.

Q. Will any of your 25,000 employees lose their jobs?

A. I don't think Chapter 11 will cause a single employee to lose a job, pay or benefits. In fact, we believe Chapter 11 is the best way to permit the Company to operate normally, providing jobs and useful products, despite all the litigation. Most important, I want to keep our employees' morale up. They've done a bang-up job to keep Manville lean and competitive.

Q. Can you pay your suppliers?

A. We don't expect any significant problem in making full, timely payment for new shipments after our filing.

Q. What effect will Chapter 11 have on your customers?

A. None. We will continue to manufacture and ship high-quality products and provide the same services, as always.

Q. What will happen to the lawsuits?

A. The Chapter 11 filing automatically stops all lawsuits pending against us. New lawsuits are also automatically stopped. We hope to establish an effective system to handle these claims in Chapter 11.

Q. What are all these lawsuits really about?

A. It's a long story. Here's the bottom line. Not until 1964 was it known that excessive exposure to asbestos fiber released from asbestos-containing insulation products can sometimes cause certain lung diseases. Since the mid-70's, lawsuits have been brought in the U.S. against Johns-Manville, our subsidiary, on behalf of nearly 20,000 people alleging injury from excessive asbestos exposure. We have disposed of about 3,500 of these cases by settlement or trial. In a significant number of cases tried, juries have found that we were not at fault and acted responsibly in light of then-existing medical knowledge. Nevertheless, new lawsuits have been coming in at a rate of 500 a month—every month! In the absence of Congressional action, the board of directors concluded there is no conceivable resolution to this burden, other than Chapter 11. Just to put it in perspective, *Newsweek* has stated that asbestos health litigation surpasses in size all the automobile accident suits pending across the nation before no-fault insurance laws were adopted.

Q. 20,000 plaintiffs? 6,000 new ones a year? Where are these suits coming from?

A. Well, many of them come from workers in shipyards and industries which used our asbestos fiber and products. Decades can pass between excessive exposure to asbestos and onset of the disease. For instance, there was asbestos insulation on the steam pipes and boilers in most ships built or refitted during World War II. The largest group suing us now consists of shipyard workers claiming recently manifested injury from asbestos exposure during wartime service, 40 years ago.

Q. What about your insurance? Shouldn't the insurance companies take care of the problem?

A. Over the years, Johns-Manville Corporation's former insurance broker bought insurance coverage for it totaling hundreds of millions of dollars. Right now, however, only one company is paying, and it pays only a small part of each claim.

Q. Why is that?

A. The whole subject disgusts me. Now, when we need the coverage, with one exception, the insurance companies are reneging. We sued them all in California in early 1980 to force payment. You won't believe it, but even now, 30 months later, we still aren't sure which judge will preside over the case. As a result the case has gone nowhere. As much as anything else, the bad faith of insurance companies has made it necessary for us to take this action. I have instructed that our damage claims in the California case be increased by five billion dollars to partially compensate creditors and shareholders for their losses.

Q. How much do the asbestos lawsuits cost you?

A. Including our outside legal fees, the cost is currently over \$40,000 per case. This is sharply higher than our averages in prior years. Internal legal staff costs are also substantial.

Q. If all 16,500 lawsuits now pending cost \$40,000 apiece to settle, that would total \$660 million. Without payments from your insurance companies, your problem is obvious.

A. Right. And that doesn't take into account the cases yet to be filed. Talking about legal costs, one of the truly outrageous aspects of this situation is the amount of money being poured down the drain in litigation expenses and contingent fees paid to plaintiffs' lawyers. Our best guess is that the injured worker receives less than a third of the total cost of these suits. The court system, with separate individual trials, is too inefficient and haphazard for a massive problem like this. We need an effective, practical national system which delivers maximum payments to injured workers, minimizes the costs of delivering those payments and withholds payments to those with no disability.

Q. What do you mean by haphazard?

A. There is no better word to describe our experience to date in the litigation. We had one suit from a plaintiff with doubtful asbestosis who had retired on a full disability pension with a broken ankle. He received an additional award for asbestos disease of one and a quarter million dollars. We have seen others totally disabled or in fact dead who received no award from the jury. In one recent trial in Texas, five separate juries hearing five different cases were empaneled and heard the same evidence before the same judge in the same courtroom at the same time. Their findings ranged from no liability to punitive awards. Maybe haphazard is too weak a description. This type of toxic tort litigation is an intolerable gambling exercise for both plaintiff and defendant.

Q. Why did you file now?

A. We're a public company. We are required to comply with certain accounting requirements. Under these rules, we're supposed to estimate the costs of current and probable litigation whenever possible and create a reserve for the liability in an amount equal to the estimate. When the asbestos cases began to proliferate, we couldn't estimate their probable number or cost, and our auditors qualified their opinion about our financial statements. When we found that the number of new cases was not declining and our "data base" of pending cases was large enough to assist in making projections, we hired epidemiologists and other professionals to develop an estimate of probable future disease cases. Early this month, they finished their work. On the basis of their work so far, we forecast that we could get at least 32,000 more lawsuits on top of the 20,000 already asserted. Some people outside Manville have estimated many more claims than that.

Q. A total of 52,000 lawsuits at a cost of \$40,000 apiece could mean a total cost of two billion dollars and that doesn't include an inflation factor. Could Manville afford it?

A. Not on our own. Our businesses are strong and viable but they might not be able to pay a bill that big. Even if we could pay, without the protection of Chapter 11, it would cripple us. The cost of handling paperwork for this number of cases is staggering. We have to incur that cost in all events and sometimes we are pressured by the courts to pay settlements without court determination that disability exists. We also might have to sell good businesses to raise cash. In Chapter 11, we can keep those businesses going and use their earnings to pay our liabilities. And timing is of course a problem. We have limited control over the timing of lawsuits and little ability to match timing of litigation payments against available cash. Disregarding the litigation, we are a low-debt company with a book net worth of \$1.1 billion. When a reserve is booked, net worth must also be reduced. The booking of a large reserve now for current and future asbestos health liabilities would wipe out most of our net worth. Without showing a good-sized net worth on our balance sheet, affordable credit would have dried up, and we simply could not have operated. So, when our board of directors learned this month of the probable need for a large reserve, it considered the options and concluded we had to file for relief under Chapter 11.

Q. How do you feel about this?

A. Awful. I've never had to do anything I hated more. Our loyal suppliers, lenders and shareholders all may suffer losses for their credit and investment exposure before our Chapter 11 filing. Losses could be very, very large for our present shareholders. Then, too, the many people who do have disabling injuries from excessive exposure to asbestos will be hurt. Their claims will be delayed and reduced. Still, it seems to us that the only orderly way to treat everyone fairly is through a court-supervised Chapter 11 proceeding.

Q. Most people think disabled workers are fully protected by workers' compensation. How is it they can sue you?

A. You're partly right. Workers' compensation covers an employer's liability to its employees for injury in the work place. The law has been interpreted to make "employer" and "employee" very restrictive terms. This means that a 1940's employee of a shipyard can get workers' compensation from the shipyard, but he can also sue us for having supplied the allegedly defective product. I don't agree with that, but the fact is we are being sued in virtually every state because of it.

Q. Isn't there some other national program for people injured while on the job?

A. There are programs in other industries, but not for asbestos workers. There should be a statutory compensation program for asbestos injuries. We've tried to get a program passed, but Congress has been preoccupied. This is another reason we've been forced into Chapter 11. No other country uses the court litigation system to provide compensation for occupational disease.

Q. How long will you be in Chapter 11?

A. That depends. I've ordered our lawyers to go full blast. One of the biggest problems will be court approval of the estimated amount due in the future to product-liability claimants. Once we get that approval, I think that getting out of Chapter 11 ought to be just a matter of finishing up the legal proceedings. In the meantime, I understand that a company in Chapter 11 is allowed to conduct its affairs in the ordinary course of business without court approval.

I hope the U.S. Congress will move toward a resolution of occupational disease litigation so that the thousands of citizens and voters caught up in this problem will be spared the expensive, inefficient and haphazard litigation system we have been saddled with. I also hope the U.S. government will step up to its responsibilities for having played a role in creating the disease problem.

Q. Is there anything else to know?

A. Yes. You should know that I and the people who work for the Company have turned every stone at least once seeking an out-of-court solution to this problem. Chapter 11 hurts, yes. However, our board believes Chapter 11 is the best way to protect our businesses. We expect to emerge from Chapter 11 stronger than ever. We are determined to make the best of this for everyone involved.

September 6, 1982

Manville

For further information write to the Corporate Relations Department, Manville Corporation, P.O. Box 5108, Denver, Colorado U.S.A. 80217

SPORTS

Noah Edges Qualifier; Top Seeds Gain

Compiled by Our Staff From Dispatches

FLUSHING MEADOW, N.Y.

At 6 p.m. Friday, Eric Korita, a qualifier, learned that he would be playing on the stadium court against Yankick Noah, the fifth seeded player in the U.S. Open tennis tournament.

"I was shaking for about an hour," said Korita, who took Noah five sets before losing Saturday's third-round match. "I was really nervous. I was crying every day. I have never experienced anything like this."

Korita is 19 and ranked 335th in the world; Noah is 22 and ranked 10th. Near the end of the match, with the two tied at two sets apiece and four games all, it was Noah's turn to be nervous. He tried to relax. "A match like this, you play four hours, and that's it," he said.

It all came down to one point, a break point with Noah serving at 30-40.

Korita said, "When I broke to make it 4-3 and held serve, and then I had a break point, I said, 'I have to stand back and just go for it.' If I could hit it, then I could hold my serve — and close out the match. And I was that close."

Close doesn't count that much. Korita's return sailed long.

When Noah broke Korita in the next game to win, 7-5, 6-7, 6-4, 6-4, Noah finally took a deep breath. "His serve was the best I've ever played against," Noah said. "It was a very close match. He just missed two or three easy volleys. That was the difference."

Although Noah's serve was broken only twice, in the fourth and fifth sets, Korita was tenacious. Down two points in the second set tie breaker, he won six points in a row. In the fourth set, he took a 3-0 lead that he never lost and forced Noah to a deciding set, which proved to be the difference be-

tween the qualifier and the top 10 player.

Noah smiled: "They are better than the guys in the main draw."

There were no Cinderella stories at the open Saturday. All the seeded players did what was expected of them and with dispatch.

Martina Navratilova, No. 1 women's seed, beat Nancy Yeargin, 6-3, 6-3. Such is Navratilova's confidence now that it begs the question: How will she react emotionally if she loses?

"That's a good question," she said.

Tracy Austin, seeded third, beat Jo Durie, 6-4, 6-3. Pam Shriver, No. 7, downed Dana Gilbert, 3-6, 6-2, 6-3, 6-1, and Hana Mandlikova, No. 5, defeated Manuela Maleeva, 7-6 (4), 6-2.

Among the men, No. 3 seed Ivan Lendl, who barely downed Tim Mayotte Friday night, had an easy third-round match against Harold Solomon, 6-3, 6-0, 6-1.

Lendl, at one stage three points away from defeat against Mayotte, was forced to struggle until the final point of a 6-4, 3-6, 4-6, 7-6, 6-4 victory.

Lendl won the fourth-set tie breaker, 7-4, and then came back from a break down in the fifth set.

Five times, Mayotte stayed off match point in the final game before finally bowing out when he sent a forehand long.

Chip Hooper upset 16th seed Roscoe Tanner in their second-round match Friday, 6-7, 7-6, 4-6, 7-5, 7-6, while John McEnroe won a 7-6, 6-4, 6-3 victory over Marty Davis and Navratilova survived a scare to beat Jill Davis, 7-6, 6-1.

Second seed Jimmy Connors enjoyed an easy passage into the third round, beating Hank Pfister, 6-4, 6-3, 6-2.

Hooper and Tanner have two of the biggest serves in the business, and Tanner produced 24 aces to nine for his opponent. But Tanner became visibly upset when, on at least three occasions when he rushed the net, the 6-foot-6, 210-pound Hooper blasted the ball directly back at him, hitting him.

After the match, Tanner commented: "I think you should just play the game and not do any of the other stuff."

Hooper offered no apologies. "I remember once when I did that against Lendl," he related. "He said, 'Stay back — I didn't ask you to come in.' I'm following Lendl's advice. I wouldn't call it a tactic, but it's a good way to intimidate your opponent."

Another seed to fall on Friday

was No. 14 Brian Teacher, who dropped a 7-6, 7-6, 7-6 decision to Scott Davis. He was the sixth men's seed to lose in the first two rounds.

Advancing to the third round among the seeded men were Eliot Teltscher, John Kriek, Steve Denton and Guillermo Vilas. Among the winning women seeds Friday were Mandlikova, Wendy Turnbull, Kathy Rinaldi, Bonnie Gaduska, Zina Garrison and Andrea Jaeger.

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John McEnroe, U.S., def. Martin Davis, U.S., 7-6, 6-4, 6-3; Jimmy Connors, U.S., def. Hank Pfister, U.S., 6-4, 6-3, 6-2; Martina Navratilova, U.S., def. Nancy Yeargin, U.S., 6-3, 6-3; Ivan Lendl, U.S., def. Tim Mayotte, U.S., 6-4, 6-3, 6-1; Harold Solomon, U.S., def. Tim Mayotte, U.S., 6-4, 6-3, 6-1; Chip Hooper, U.S., def. Roscoe Tanner, U.S., 6-7, 7-6, 4-6, 7-5, 7-6; John McEnroe, U.S., def. Marty Davis, U.S., 7-6, 6-4, 6-3; Jill Davis, U.S., def. Navratilova, U.S., 7-6, 6-1.WOMEN'S SINGLES
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"A very nice gesture."

1-Hitter by Palmer Defeats Twins; Orioles Climb Into Second Place

Compiled by Our Staff From Dispatches

BALTIMORE

Pitched the fifth one-hitter of his career, yielding only a fifth-inning single to Gary Gaetti, as the Baltimore Orioles moved into second place in the American League's Eastern Division by defeating Minnesota, 3-0, here Saturday night.

It was Palmer's 11th straight victory, matching his best streak ever, and his second consecutive shutout. The Orioles have won 14 of 15 games. Eddie Murray provided the only essential runs with a two-run home run, his 26th of the year, off Bobby Casillo in the first inning.

As Palmer walked in from the bullpen before the start of the game, he was vigorously applauded by the crowd of 19,536. "That was a very nice gesture on his part," he said. "That hasn't happened since the 1973 playoffs."

Palmer expressed his appreciation not with a tip of the cap but by retiring the first 14 batters.

No Minnesota runner got past first base. Gaetti singled past shortstop Cal Ripken into center field on a 0-1 fastball with two out in the fifth. Lenny Fiedor walked on four pitches in the sixth and pinch hitter Randy Bush walked on a 3-2 pitch to lead off the ninth. None advanced.

Mariners 4, Red Sox 3

In Boston, Julio Cruz's two-run single highlighted a four-run second as Seattle beat the Red Sox, 4-3, despite three wild pitches by Gaylord Perry (8-12). Perry is appealing a 10-day suspension for allegedly throwing spitters in a recent game against Boston. Four times on Saturday, Red Sox batters asked home plate umpire Steve Palermo to examine the ball; he tossed one ball out. "It's just the way I pitch," said Perry.

Brewers 8, Angels 2

In Milwaukee, Gorman Thomas drove in two runs with a triple and a double to pace a 15-hit offense that gave the Brewers an 8-2 victory over California. Pete Vuckovich (4-4) pitched a seven-inning shutout. Luis Tiant (2-3) yielded three runs in the fifth and two in the sixth as Milwaukee took a commanding 7-2 lead.

Yankees 3, Royals 2

In Kansas City, Mo., Dave Winfield's one-out homer in the ninth broke a 2-2 tie and enabled New York to defeat the Royals, 3-2. Winfield's 27th home run of the year made a winner of Shane Rawley (10-8), who yielded six hits in eight innings.

White Sox 4, Rangers 0

In Chicago, Richard Dotson threw a four-hitter and Greg Luzinski hit his 17th homer of 1982 to lead the White Sox past Texas, 4-0. Chicago has six straight victories and Dotson (10-11) has won his last seven decisions.

Indians 4, Blue Jays 3

In Cleveland, Rick Manning singled Von Hayes home from second to break a seventh-inning tie as the Indians defeated Toronto, 4-3, and swept a three-game series. Toronto has finished last in the Eastern Division in all five years of its existence. In four of those, Cleveland has been sixth. "It's the battle of the basement," said Manning. "Big deal — what's the difference between sixth and seventh?"

A's 4, Tigers 3

In Detroit, Tony Armas homered and hit a tie-breaking ninth-inning sacrifice fly to enable Oakland to beat the Tigers, 4-3. Mike Norris (7-9) won the distance for the A's, giving up five hits and striking out eight.

Pirates 1, Dodgers 0

In the National League, in Los Angeles, Lee Tunnell, making an emergency start for his first major league appearance, pitched Pittsburgh to a 1-0 victory over the Dodgers and Fernando Valenzuela (17-10). Scheduled starter John Candelaria was sidelined with an inflamed shoulder muscle. Tunnell, called up from Portland on Thursday, allowed only four hits through seven innings; a blister forced him to leave in the eighth. Lee Tunnell's first-inning home run accounted for the game's only run.

Giants 5, Cardinals 4

In San Francisco, Jack Clark's three-run homer in the ninth produced the Giants' 5-4 verdict over St. Louis, which had held a 4-2 lead going into the inning. Jeff Leonard and Joe Morgan delivered singles, however, and reliever Bruce Sutter replaced Jim Kaat. Sutter got Chili Davis on a grounder, but Clark hit Sutter's next pitch high over the left-field fence.

Expos 4, Braves 1

In Montreal, Warren Cromartie had three hits, including a first-inning home run, to lead the Expos to a 4-1 decision over Atlanta. Steve Sanderson, giving up five hits through six innings, brought his record to 9-11. Jeff Reardon earned his 22d save.

Phillies 4, Astros 2

In Philadelphia, Bo Diaz drove in three runs with a double as the Phillies defeated Houston, 4-2.

Mets 3, Reds 2

In New York, Dave Kingman's 32d homer of the season was the difference in the Mets' 3-2 victory over Cincinnati.

Padres 4, Cubs 1

In San Diego, Terry Kennedy hit two two-run home runs and Tim Lollar pitched a three-hitter as the Padres bested Chicago, 4-1. Lollar (13-8) missed his third shutout of the year when Jody Davis led off the sixth with his 10th homer of the year.

Athletes' Appearance Money Is Approved by Track Body

ATHENS — The congress of the International Amateur Athletic Federation voted Saturday in favor of appearance money for track stars, to be paid into trust funds administered by their national associations. The money may be used to help them with training during their competitive careers, or paid to them in cash when they retire.

The scheme is designed to stop the practice of under-the-table payments to track and field's top stars but at the same time to give them an eventual share of the television fees and commercial sponsorship they help to attract.

Once athletes choose to draw on the trust funds, their competitive careers will be ended. They will be declared ineligible and will not be reinstated.

The congress also voted overwhelmingly to limit and strictly control the number of major international invitations and meetings by establishing a "permit system."

All permit meets must be approved by the IAAF and all arrangements with athletes, including appearance money, must go through their national federations.

The permit meets for 1983 will be set at a meeting of the IAAF council in late October. They will be the only meets at which participation money will be sanctioned by the IAAF — and then only if it is paid to national federations to be held in trust.

Transactions

BASEBALL
AMERICAN LEAGUE
CALIFORNIA — Outrighted the Yankees' Lenny Fiedor, a minor league affiliate.

MILWAUKEE — Sent Kevin Boss, outfielder, and Mike Hadden and Frank DiPino, pitchers, from their Vancouver farm club in the Pacific Coast League to the Houston Astros to complete the deal for Don Sutton.

BASKETBALL
NATIONAL BASKETBALL ASSOCIATION
PHILADELPHIA — Signed Russell Schwenk, forward.

PHOENIX — Announced that Rudy White, forward, has agreed to terms for a one-year contract.

UTAH — Traded Dominique Wilkins, forward, to Atlanta for John Drew, forward, and Paul Williams, guard, and an undrafted draft pick.

HOCKEY
NATIONAL HOCKEY LEAGUE
BUFFALO — Signed Jerry Butler, who received a one-year contract.

NEW ORLEANS — Cut Jerome Walker, line backer.

SEATTLE — Acquired Roger Craig, wide receiver, from Baltimore for an undrafted draft pick.

UNITED STATES FOOTBALL LEAGUE
BOSTON — Signed John Dierdorff and Herb Oates, defensive backs, and Wally Wright, wide receiver.

CHICAGO — Signed Lou Kline, defensive back.

NATIONAL FOOTBALL LEAGUE
WINNIEPAC — Announced the retirement of Barry Lawrenson.

ADELPHI — Named Patricia Prescott two coach of women's field hockey. Norma Lee Powell, assistant coach of men's and women's field hockey.

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BASEBALL ROUNDUP

tory, matching his best streak ever, and his second consecutive shutout. The Orioles have won 14 of 15 games. Eddie Murray provided the only essential runs with a two-run home run, his 26th of the year, off Bobby Casillo in the first inning.

As Palmer walked in from the bullpen before the start of the game, he was vigorously applauded by the crowd of 19,536. "That was a very nice gesture on his part," he said. "That hasn't happened since the 1973 playoffs."

Palmer expressed his appreciation not with a tip of the cap but by retiring the first 14 batters.

No Minnesota runner got past first base. Gaetti singled past shortstop Cal Ripken into center field on a 0-1 fastball with two out in the fifth. Lenny Fiedor walked on four pitches in the sixth and pinch hitter Randy Bush walked on a 3-2 pitch to lead off the ninth. None advanced.

Mariners 4, Red Sox 3

In Boston, Julio Cruz's two-run single highlighted a four-run second as Seattle beat the Red Sox, 4-3, despite three wild pitches by Gaylord Perry (8-

